Business Environment and Ethics

Manmohan Joshi

bookboon
The eBook company

MANMOHAN JOSHI

BUSINESS ENVIRONMENT AND ETHICS

Business Environment And Ethics
1st edition

ISBN 978-87-403-1612-4

CONTENTS

1 Business And Its Environment 7
1.1 Introduction To Business 7
1.2 Meaning Of Business Environment 9
1.3 Features Of Business Environment 10
1.4 Characteristics Of Business Environment 11
1.5 Importance Of Business Environment 12
1.6 Environmental Influence On Business 13

2 Environmental Analysis 15
2.1 Swot Analysis 15
2.2 Components Of Business Environment 18
2.3 Internal Environment 18
2.4 External Environment 20
2.5 The Purpose Of Analysis 22
2.6 Environmental Scanning 22
2.7 Miles's Six Questions Framework 23

3 Economic Environment 25
3.1 Introduction 25
3.2 Economics 26
3.3 Competitive Rivalry 29

4 Non-Economic Environment 31
4.1 Social Environment 31
4.2 Political Environment 31
4.3 Legal Environment 33
4.4 Technological Environment 33
4.5 Demographic Environment 34
4.6 Natural Environment 35
4.7 The Physical Environment 35

5 Sociology And Technology 37
5.1 Sociology 37
5.2 Technology 39
5.3 Research And Development 41
5.4 Intellectual Property Rights 42

6 International Environment 43
6.1 Introduction 43
6.2 Global Environment 43
6.3 International Organisations 45
6.4 Other International Organisations 46
6.5 Challenges In International Business Environment 49

7 Industry Rivalry And Competition 50
7.1 Industry Rivalry 50
7.2 Porter's Five Competitive Forces 51
7.3 Other Factors For Industry Analysis 53

8 Business Strategies 54
8.1 Deciding The Industry 54
8.2 Levels Of Competition 55
8.3 Directional Strategy 58

9	**Business Ethics**	**61**
9.1	Introduction	61
9.2	Approaches To Business Ethics	61
9.3	International Trends In Business	63
9.4	Ethical Challenges In The Workplace	67
9.5	Compliance	69
9.6	Value-Based Codes	69
9.7	Ethical Investment	70
9.8	Social Responsibility	70
9.9	Case Studies	71
	References	**73**
	About The Author	**74**

1 BUSINESS AND ITS ENVIRONMENT

1.1 INTRODUCTION TO BUSINESS

We use the term 'business' to convey different meanings when we use it in different circumstances or contexts. When we think of 'businesses' in a generalised way, we are, in effect, really referring to 'commercial activity.' This activity is primarily concerned with the operations involved in getting 'products':

- from the people/entities that produce or make these products; and
- to the people/entities that need – and will pay for – these products.

Business can be referred to the profit-seeking activities of any organisation which makes distribution or provides any product or service to the customers who are willing to pay for them.

Business may be defined as 'the organised effort by individuals to produce goods and/or services in a marketplace and to reap some reward for this effort.' Functionally, we may define business as 'those human activities which involve production or purchase of goods with the object of selling them at a profit.' Urwick and Hunt (2002) endorse this view by asserting that:

> ***"Business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are willing to pay for."***

Basically, business is an important activity in society. Be it supply of goods or services, creation of employment opportunities, offer of better quality life, or contribution to the economic growth of a country, the role of business is crucial.

1.1.1 BUSINESS OBJECTIVES

Objectives are 'goals' which a business organisation aims to achieve. Before any business organisation is started, a person or a group of people has to decide what that organisation is going to do. For example:

- Is it going to manufacture something?
- Is it going to buy or sell?
- Is it going to provide a service?

1.1.2 PROFIT MOTIVE

In the private sector the specific objectives of a business are combined with the objective of making 'profit.' The goal is that the business gets a 'return on capital' in the form of profit.

1.1.3 BASIC PRINCIPLES OF BUSINESS

After the objectives of a business have been decided it is necessary to decide in broad terms 'how' and 'where' those objectives are to be achieved. This involves laying down the basic 'policies' of the business.

1.1.4 ATTITUDE TOWARDS OBJECTIVES

Policies are really the 'attitudes' of the management of an organisation towards achieving its set objectives. Policies, therefore, need to be 'flexible,' to be adjusted or adopted to deal with prevailing circumstances and trading conditions, with problems which might arise in attaining the objectives, or as required by the operating position of the organisation at a particular time. Any modifications of objectives and adjustments to the policy are made by the owner(s) or partners of a business, or by a board of directors if it is a company.

1.1.5 PLANNING

Planning entails deciding how the pre-determined 'objectives' of a business should be achieved in the most efficient and economical way in accordance with policy. Planning is the activity concerned with making plans. Plans are really 'routes to objectives.' Once the objectives of an organisation have been set, planning is necessary to work out how to achieve the objectives in practice, within the framework of the policies formulated.

Plans, however, must be flexible so that they can quickly and easily be modified in the light of changing circumstances. Much of routine planning is an automatic process, requiring little conscious thought on the part of the manager, because his/her plans and decisions will be based largely on past experience with similar – or even with identical – problems. Other planning might require far more conscious thought, investigation and research before decisions are reached.

1.1.6 FORECASTING

Planning is concerned primarily with activities in the future. There has to be some guidance as to what might occur in the future. What is called forecasting is, therefore, essential if management is to be able to carry out effectively its planning function. No one can predict the state of the economy, or the possible situation of an organisation, in 10 years' time with any great degree of certainty, but the best possible attempt must be made, and many different methods can be used, depending on circumstances.

1.2 MEANING OF BUSINESS ENVIRONMENT

There is a close association between business and its environment. Business environment refers to various forces that influence the functioning of business. According to Richman and Copen (1972),

> ***"Environment consists of factors that are largely, if not totally, external and beyond the control of individual industrial enterprise and their managements. There are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country."***

Business environment can be defined as a combination of internal and external factors that have a bearing on a company's operating situation. It plays a significant role in shaping the business decisions and strategies of a company. Glueck and Jauch (1988) define business environment:

> **"as the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic, and social settings to determine opportunities and threats to their firms."**

Changes in all these spheres are constant, and they pose a serious challenge for today's business managers to be aware of the specific changes so as to keep themselves abreast with the latest happenings in the field of business to maintain their survival and sustainability in the market.

Figure 1/1 below provides an idea of the factors of environment which affect the business.

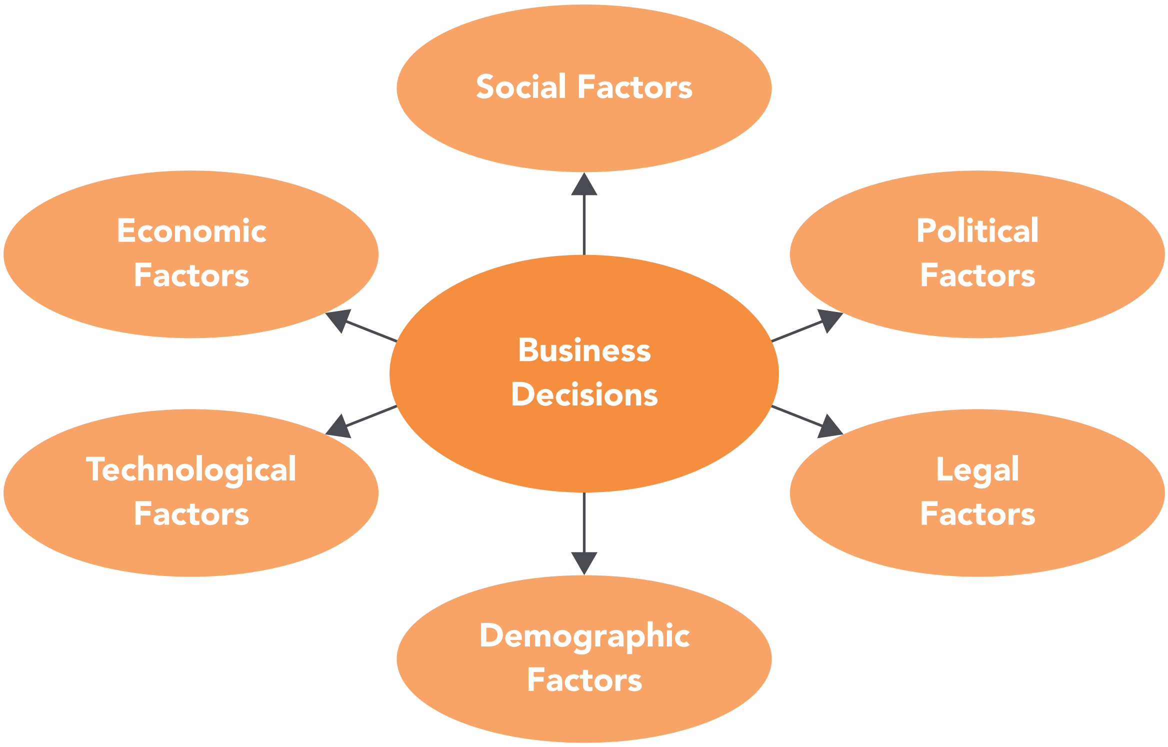

Fig. 1/1 Business environment factors affecting the business

1.3 FEATURES OF BUSINESS ENVIRONMENT

Features of business environment can be summarized as follows:

- It is a combination of all external factors that have a bearing on the functioning of business.
- It comprises factors and forces like customers, suppliers, competitors, government, and social, cultural, political, technological and legal conditions.
- It keeps on changing continuously.
- It is difficult to predict the forthcoming changes. However, some deductions may be made to a certain extent.

It differs from place to place – from one region to another in the same country, and from one country to another. However, it is likely to affect different regions or countries.

1.4 CHARACTERISTICS OF BUSINESS ENVIRONMENT

Characteristics of business environment can be categorized as below:

- **Environment is complex:** Business environment comprises a number of factors such as technological developments, global competition, leadership, ever-changing economic, social, political conditions etc. They create a new set of influences which interact with each other. All such factors make environment analysis a complex one.
- **Environment is dynamic:** Both the internal and external environments of business are highly dynamic. This is so because of:
  - Changing customer demands;
  - New competitors;
  - New technologies;
  - Changing demographic structure;
  - Changing social and political climate etc.
- **Uncertain environment:** Changes in business environment cannot be ascertained with certainty. It is so because of the factors of business that keep changing rather quickly.
- **Environment is multi-faceted:** Different characteristics of environment may be viewed differently by various observers in the organisation. While some may view it as an opportunity, others look at it as a threat. It is for the strategic manager to analyse these widely differing perceptions and decide to accept or reject them as per the needs and vision of the organisation.
- **Interrelatedness:** Various factors of business environment are quite often interrelated. For example, change in the political scenario of a country may have an impact on the country's import-export policy or Foreign Direct Investment (FDI) in a country.

Figure 1/2 below gives an indication of these factors.

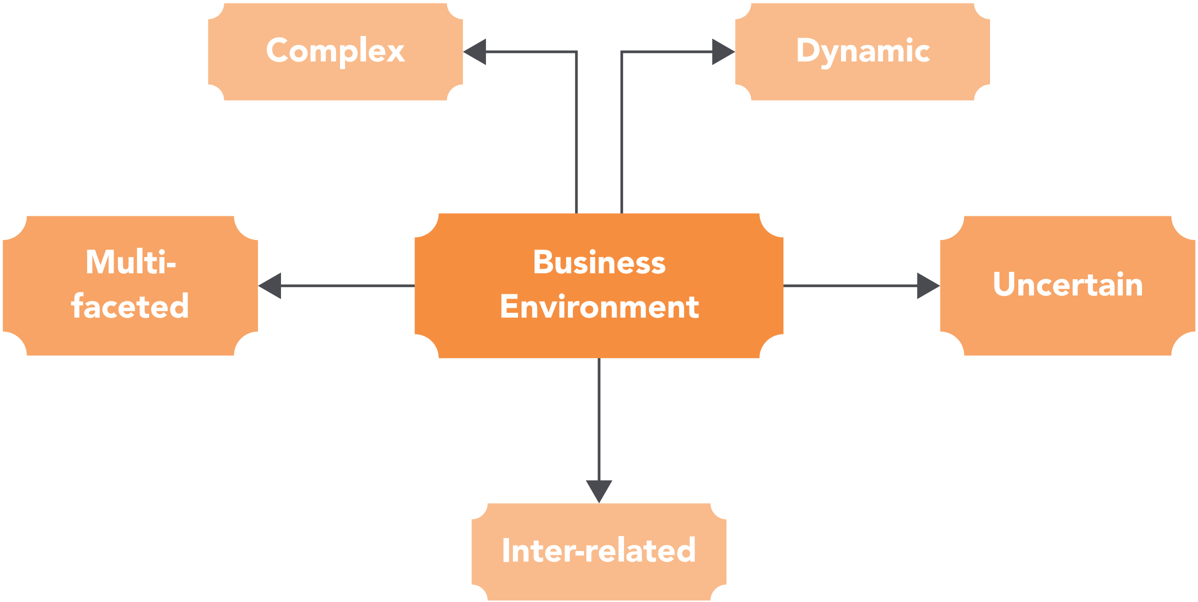

Figure 1/2 Characteristics of business environment

1.5 IMPORTANCE OF BUSINESS ENVIRONMENT

Since business environment is complex and vibrant, it has great impact on the development of business. In fact, there is a close and continuous interaction between the business and its environment. Hence a proper understanding of the various forces running the environment helps the business in several ways.

These are the following:

1.5.1 DETERMINING OPPORTUNITIES AND THREATS

When there is interaction between the business and its environment, it helps in identifying opportunities and threats to the business. Businesses then can face these challenges and come out successful.

1.5.2 LEARNING POTENTIAL

Environmental analysis helps managers to enhance their learning and empowers them with the knowledge and skills to deal with challenges continually.

1.5.3 IMAGE BUILDING

Study of the environment provides an opportunity to the business to create and sustain their image vis-à-vis their competitors.

1.5.4 IDENTIFYING STRENGTHS AND WEAKNESSES

An analysis of business environment helps the companies to assess their relative strengths and weaknesses in the light of technological and international developments.

1.6 ENVIRONMENTAL INFLUENCE ON BUSINESS

Glueck and Jauch (1988) asserted that:

> ***"The environment includes outside the firm which can lead to opportunities or threats to the firm. Although there are many factors, the most important of the factors are socio-economic, technical, supplier, competitors, and government."***

Environmental analysis helps in diagnosing the competitive forces and components of strategic management. However, it is also important that analysis be made of the internal environment of the organisation.

Figure 1/3 below shows the environmental influences on the business.

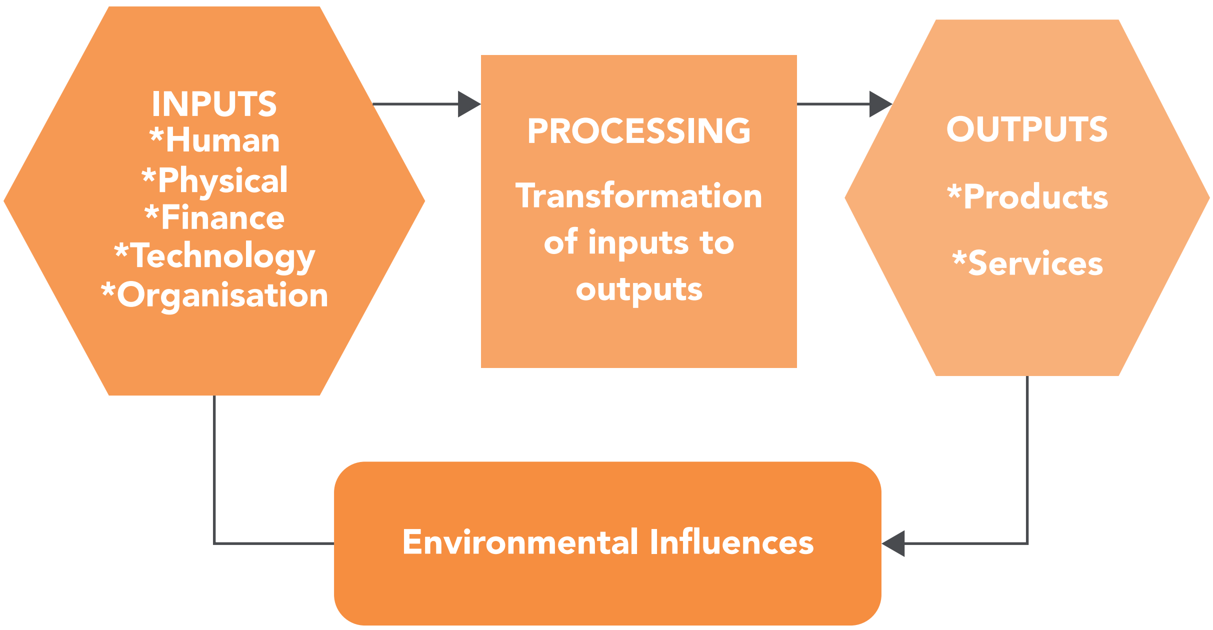

Fig. 1/3 Environmental influences on business

Every business organisation consists of internal environmental factors and external environmental factors. Both factors influence the business directly as well as indirectly.

1.6.1 HOW TO UNDERSTAND ENVIRONMENTAL INFLUENCES

Strategic managers need to understand the following in order to analyse environmental influences:

- They need to know the uncertainty regarding the structure and nature of the business organisation.
- They need to be fully aware of the decision-making process.
- They need to clearly identify the various environmental influences which are likely to affect the organisation's performance. For this, they need to understand and analyse the political, economic, social and technological influences.
- They need to understand the competitive environment and assess its effects on the organisation.

2 ENVIRONMENTAL ANALYSIS

Environmental analysis is to analyse changing patterns and their impact on business. It is an opportunity to anticipate future threats and opportunities. Clifton Garvin, American businessman (1921–2016), has asserted that environment analysis provides an insight into both opportunity and challenge.

Environment analysis has the following basic goals:

- It informs about the current and potential changes in business environment. The strategic manager needs to be aware of the existing environment. At the same time they should be able to consider the long-term perspective about the future.
- It helps in making strategic decisions based on the inputs gathered from environment analysis.
- It facilitates and fosters strategic thinking in the organisation.

2.1 SWOT ANALYSIS

SWOT is the acronym for 'Strengths, Weaknesses, Opportunities and Threats.' It is in effect a distillation of all the steps and considerations that should be taken to formulate an effective corporate strategic plan.

2.1.1 STRENGTHS

In this area will be found all the advantageous aspects of the organisation, for example, exceptional customer goodwill and brand loyalty, ideal location of its stores, highly efficient technical personnel, adequate financial resources, enthusiastic sales force, etc. The strengths represent the foundations on which the organisation's continued success and prosperity can be built.

2.1.2 WEAKNESSES

These must be honestly investigated and faced because they represent influences which could retard the growth and success of the organisation. Remedies must be sought to overcome weaknesses once they are identified.

Weaknesses can occur in any or all areas of an organisation – depending on the particular organisation and its activities. Examples of weakness could be obsolescent machinery, lack of provision for senior management succession, skills shortage, and inadequate research and development facilities resulting in lack of new products to succeed current production models.

The remedies to be applied will, of course, depend upon the weaknesses involved. Top management of the organisation concerned should consider carefully about investing in new machinery, the promotion of management training programmes, and increased investment in research and development. If its financial position is one of the organisation's strengths, then these remedies would not be difficult to implement. If finance is one of the weaknesses, that aspect would need to be given attention first.

2.1.3 OPPORTUNITIES

Whereas strengths and weaknesses emanate chiefly – although not entirely – from inside the organisation, opportunities are usually external. They might come about fortuitously or by an application of research. The important factor is that opportunities should be recognised and grasped firmly when they arise.

Some examples of opportunities are a new market opening up that could be filled from existing resources, the opportunity to take over another company which would improve the organisation's capabilities, such as a manufacturer taking over a retailing chain, or the opportunity to take on the management team an expert in some appropriate field who would improve the organisation's performance.

Opportunities abound if they are actively sought and recognised. They are important for the organisation, and its management should be ready for them so that they are able to be seized on when they occur, provided they coincide with the main objectives of the organisation.

2.1.4 THREATS

Most threats to an organisation are from external sources, and they must be identified, and steps must be taken to deal with them. Though the actual threats are mostly external, their disadvantageous repercussions on the organisation are chiefly due to weak or inept management and management planning. Some examples of threats could be technological developments, thrusting competition (especially from other countries), economic and political uncertainty.

Two very important threats which can arise internally must not, however, be overlooked. The first is management complacency, and the other is inadequate financial management. Complacency results from the assumption that things will always remain 'as they are' – and therefore management has the plans to meet technological or other changes, or the consequent strong competition.

SWOT analysis is usually arranged in a grid pattern as shown in Figure 2/1 below.

STRENGTHS	WEAKNESSES
1...	1...
2...	2...
3...	3...
OPPORTUNITIES	**THREATS**
1...	1...
2...	2...
3...	3...

Fig. 2/1 SWOT analysis grid

Although the top headings are primarily about internal considerations and the lower two are mostly concerned with the external environment, the grid might be also divided vertically. Strengths might give rise to opportunities, or opportunities might foster the development of strengths; weaknesses might attract threats, or threats might create weaknesses. Accordingly, we find that often there are important connections that can be made between what might appear below the *horizontal* line as well as the *vertical* line.

2.1.5 ADVANTAGES OF SWOT APPROACH

The advantage of SWOT approach to corporate planning is that it requires management to look very closely and analytically at every aspect of the organisation's operations so that objectives can be assessed as attainable, and a clear picture can be built up of the strategies that must be adopted to achieve them.

Even strategy must also be examined with care, so that the constraints under which operations have to be conducted will be recognised. Some of these constraints, which might cause certain strategies to be abandoned, will be external and some will be internal.

Some external constraints might be outside management's control altogether. These would include raw material price rises, government legislation, and the economic climate. Others might be circumvented. Examples could be substitution of an alternative material for one whose supply has ceased, or finding a new outlet for products whose overseas market has ceased to exist because, say, of import controls.

Internal constraints include lack of specialist labour, poor industrial relations, faulty product owing to poor quality – control and lack of research and development support. Such constraints might require the re-examination of corporate strategies, and the planners and management will have to consider the alternatives of either abandoning some strategies or of remedying the constraints.

2.2 COMPONENTS OF BUSINESS ENVIRONMENT

Business environment of the company or organisation can be classified into two broad categories:

- Internal environment
- External environment

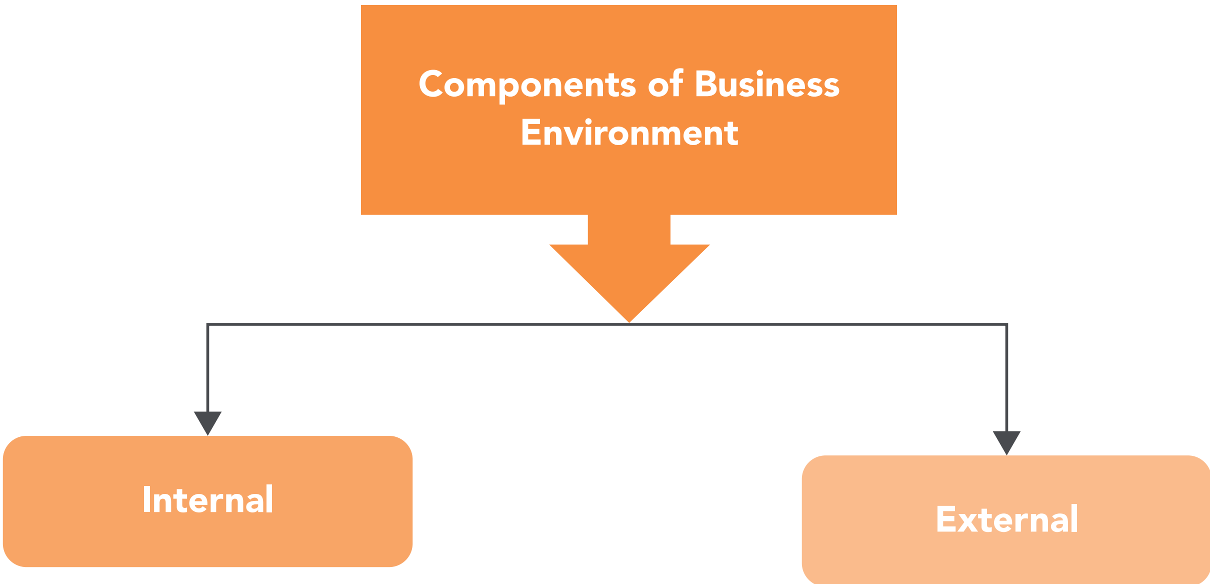

Fig. 2/2 Components of business environment

2.3 INTERNAL ENVIRONMENT

An analysis of internal environment leads to designing of a realistic organisation profile. It must identify the strengths and weaknesses. The following key factors can be identified:

- Value system;
- Mission objectives;
- Management structure and nature;
- Integrated power relationship;
- Human resource;
- Organisation image;

- Brand equity;
- Physical assets;
- Research and Development;
- Technological capabilities;
- Marketing resources; and
- Financial resources.

Analysis of internal environment is based on the objectives of the organisation. Its profile focuses on determination of strengths and weaknesses of the strategic environment of the business. The major steps in this process are given below.

2.3.1 IDENTIFICATION OF STRATEGIC FACTORS

This can be done with the following approaches:

- **Functional approach:** In this the key strategic factors are:
  - Marketing;
  - Finance and accounting;
  - Operation;
  - Human resource; and
  - General management.
- **Value chain approach:** Porter (1980) identified the value chain approach of the organisation. A value chain approach is a systematic way of viewing the activities of the organisation. These activities are performed to design, produce, market, deliver and support its product. They can be grouped into two broad types:
  - **Primary activities:** Inbound logistics, operations, outbound logistics, marketing, and sales.
  - **Support activities:** Infrastructure, human resource management, technology development, procurement.
- **Evaluation of internal strategic factors:** Internal analysis must evaluate the number of strengths and weaknesses in relation to the opportunities for the organisation's present and future competition. Basic parameters to evaluate are:
  - Comparison with organisation's past performance;
  - Stages of product and market evolution; and
  - Comparison with competitors.

2.4 EXTERNAL ENVIRONMENT

External environment of a business has considerable bearing on its success or lack of it. It can create both facilitating and inhibiting influences on organisational performance. External environment of the business can be categorised into two broad categories:

- Micro environment;
- Macro environment.

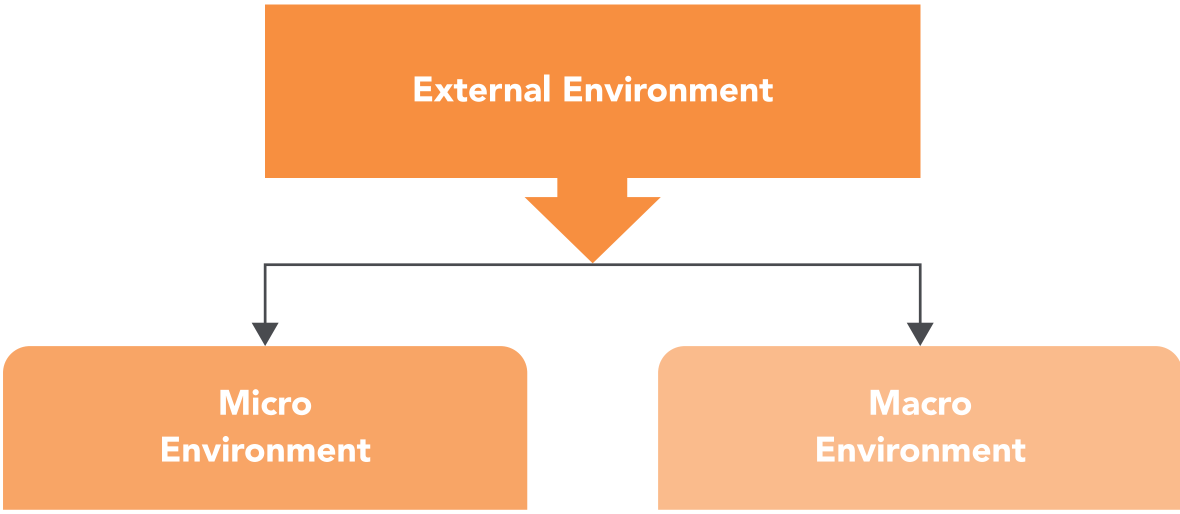

Fig. 2/3 External Environment

2.4.1 MICRO ENVIRONMENT

It includes six external areas with which there is likely to be the most frequent and sustained contact in the normal course of events.

These are:

- Customers;
- Suppliers;
- Distributors;
- Sources of finance;
- Direct competitors; and
- Sections of the general public.

2.4.2 MACRO ENVIRONMENT

It envelopes the whole organisation and comprises those elements which it cannot readily control but has to operate within. These include the following forces:

- Political;
- Economic;
- Social/cultural; and
- Technological.

It is often remembered by using the acronym PEST (Political, Economic, Social, and Technological).

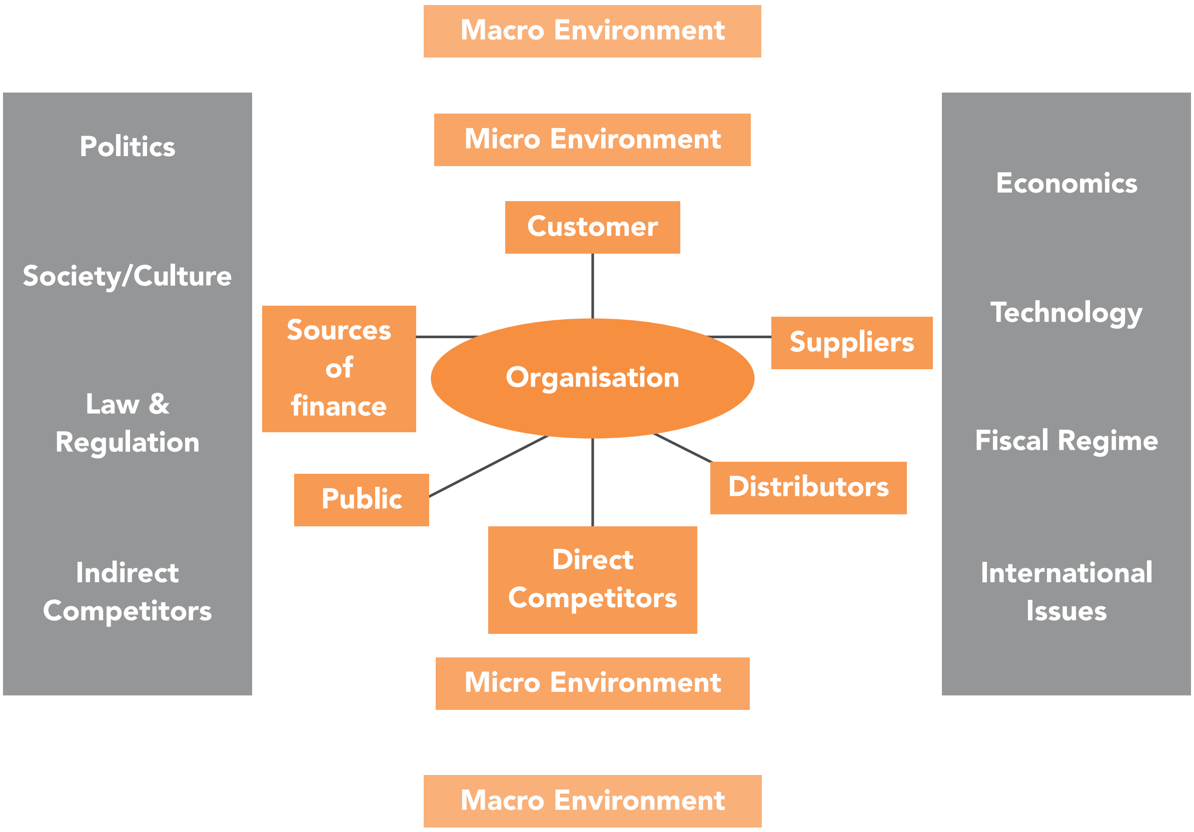

Fig. 2/4 the Micro and Macro Environment

Any control over the macro environment which it is possible to exercise is likely to be limited. For example, lobbying civil servants and politicians, either directly or through representative bodies, might result in new laws that benefit everyone in a particular sector, or can reduce the impact of current legislation which is seen as being disadvantageous, relating perhaps to performance criteria or taxation. Generally, planners have to work with what they find to be the prevailing conditions in the macro environment.

2.5 THE PURPOSE OF ANALYSIS

The main aim of analysis is to obtain a clear, coherent understanding of the current and likely future environment, in order to optimize the organisation's chances of success. Analysis is potentially fraught with difficulties because of widespread and pervasive complexity. Each element has to be carefully evaluated because it is fundamentally important to know which ones are of greatest importance to performance and financial results. Attention is focused on those which are likely to have the severest impact.

In evaluating each factor, the management is guided by a few key questions:

- To what extent is this particular element truly relevant to their strategy?
- To what extent should it be relevant?
- To what extent could their organisation make the most of it?

2.6 ENVIRONMENTAL SCANNING

2.6.1 MEANING

Environmental scanning means a careful monitoring of an organisation's internal and external environments. It is done to know about the opportunities and threats, strengths and weaknesses that may have an influence on the organisation's plans. Scanning the external environment means collecting information about the conditions and factors surrounding an organisation that influence its activities and choices, and thus decide its opportunities and threats. Forces in an organisation's external environment are out of its control, and can directly or indirectly affect its chances of success or failure. It also means scanning the operating environment. Scanning the internal environment of an organisation means collecting information about its own strengths and weaknesses.

Environmental scanning is actually a data collection practice. The aim is to collect information about an environment, and which can be used in planning, development and monitoring by managers. After the data has been collected with scanning, it can be analysed for use in the process of decision-making.

Scanning and gathering data before the planning stage is useful for identifying strengths, weaknesses, opportunities, and threats. Those companies which use environmental scanning can act quickly when they find a problem or an opportunity. It can include a lot of things, for example, a product release by a competitor that might be a threat to a company's market share, or it might be some security problem in its own environment.

2.6.2 WHAT IS INVOLVED IN ENVIRONMENTAL SCANNING

The following steps are involved in environmental scanning:

- **Identify external forces like:**
  - Political;
  - Legal;
  - Economic;
  - Social and cultural;
  - Technological;
  - Organisation competitors.

- **Identify internal forces like:**
  - Technological resources;
  - Human resources;
  - Financial resources;
  - Information resources;
  - Expectations of stakeholders.

- **Determine sources of information like:**
  - Surveying legal and ethical issues;
  - Personal experiences of employees;
  - Sources like banks, competitors, suppliers, customers, government;
  - Studies by experts;
  - Internal documents;
  - Websites.

2.7 MILES'S SIX QUESTIONS FRAMEWORK

In order to better understand the environment, a number of methods have been suggested. Prominent among them is Miles's six question framework for classifying environments into simple, dynamic, or complex:

- **Complexity:** How complex is the environment?
- **Nature:** How dynamic and unpredictable is the environment?
- **Present stance:** How routine or standard are our interactions with the environment?
- **Interconnections:** Are there any connections between different elements of the environment and, if so, what are they?
- **Pressures:** How receptive are we to the environmental pressures which affect our operations?
- **Flexibility:** How flexible are we in responding to the environment?

Stable conditions should be fairly predictable because there is no change over sustained periods. Unfortunately, such conditions are rare, and are beyond the experience of the managements of most organisations. Most probably, changes will be present, although this might be gradual, or incremental, and relatively understandable.

Most environments, however, are subject to a lot of pronounced changes, both in nature and in scale, which make forecasting and planning quite difficult. In recent years most people have seen seemingly dramatic changes in many areas, and that is likely to be a permanent feature of some environments in the future. Peters (1992) suggests the term 'Crazy Days' to describe high turbulence, which cause organisational structures to be subjected to extensive changes which might amount to transformation where environmental '*uncertainty is the only certainty*.'

3 ECONOMIC ENVIRONMENT

3.1 INTRODUCTION

The survival and success of every business organisation depends to a very large extent on its economic environment. The economic environment constitutes economic conditions, economic policies, and the economic system.

3.1.1 ECONOMIC CONDITIONS

The economic conditions of a country refer to a set of economic factors that have a great influence on business organisations and their operations. These include:

- Gross domestic product;
- Per capita income;
- Markets for goods and services;
- Availability of capital;
- Foreign exchange reserves;
- Growth of foreign trade;
- Strength of capital markets;
- Nature of the economy;
- People income distribution pattern; and
- Development process.

3.1.2 ECONOMIC POLICIES

All business activities are directly influenced by the economic policies framed by the government from time to time. Some of these policies are:

- Industrial policy;
- Fiscal policy;
- Monetary policy; and
- Export-import policy.

3.1.3 ECONOMIC SYSTEM

Money is the lifeblood of any business organisation and the economic system. The world economy is primarily governed by three types of economic systems:

- Capitalist economy;
- Socialist economy; and
- Mixed economy.

The strategist must scan, monitor, forecast, and assess the following elements of the economic environment:

- Nature of the country's economy;
- Monetary and fiscal policies;
- Autonomy of economy;
- Economic legislation;
- Tax rates;
- Interest rates;
- Government budget deficit;
- Consumption pattern;
- Price fluctuations;
- Global movement of labour and capital;
- Stock market trends;
- Inflation trends in the country; and
- Unemployment trends.

3.2 ECONOMICS

Economics plays a major role in affecting the business environment. There are several factors which are responsible for this phenomenon.

They are the following.

3.2.1 INFLATION

The term 'inflation' refers to an increase in the general level of prices sustained over a period of time. High rates of inflation can inflict great economic damage. In this situation governments might take measures designed to reduce demand for goods and services and increase unemployment. As more people lose their jobs the rate of inflation should decline because at the same time fewer people have either the means or the inclination to spend as much of their disposable incomes or savings as previously, or to borrow money with which to make purchases. Consequently, output of goods and services contracts and a 'recession' looms.

In countries in which substantial welfare payments are made to unemployed people, the extent to which the rate of inflation falls will be less than in countries where the 'safety net' provided by the State is weak or absent. In other words, it takes a lot more unemployment to reduce the level of inflation in countries which make more generous provision for citizens, who temporarily fall on 'hard times.'

It is uncertain whether high inflation encourages or reduces economic growth. Some countries have achieved substantial economic growth while experiencing high levels of inflation. Other countries have grown slowly during low or high inflation. In any examination of the environment, thought has to be given not only to current but also to likely future levels of inflation.

Organisations which depend upon consumer spending, perhaps as retailers or through direct marketing or by selling to customers who are themselves dependent upon consumer sales, have to be particularly sensitive to prevailing 'economic sentiment.' Sales volumes can reflect current buoyant confidence, based on stable low inflation and high employment, or widespread anxiety about future employment prospects. Prolonged economic recession can inflict long-lasting damage on sales, particularly when consumers believe that if they postpone purchases they will see prices fall further.

3.2.2 THE BUSINESS CYCLE

There are 'ups and downs' of business activity. This 'business cycle' is spread over years. The reasons are quite often uncertain but the features are clear. There are four phases of the cycle:

- **Peak or boom:** This is the phase when employment, output and investment are at high levels. In these conditions people spend generously, raising demand for goods, services and higher earnings. Profits are higher too, but the cloud on the horizon labelled 'high labour costs' is growing uncomfortably larger.
- **Recession:** It is technically determined by falling output in absolute terms, as recorded in government data assembled from company information. In reality, recessions also occur when output is simply not rising; governments might deny that there is a recession although the people experience quite the opposite effects. Unemployment is rising and investment is delayed or curtailed; the rate of inflation is falling and fewer foreign-made products and services are being purchased.
- **Slump or trough:** It happens when the recession 'bottoms out' and it is characterized by widespread hardship, caused by business failures and high unemployment. Use of the word 'slump' is widely avoided by governments and the media because it is so closely associated with economic suffering and dislocation.
- **Recovery or expansion:** A recession might last from months to years in different countries. But sooner or later there comes the return of better times, through 'recovery' or 'expansion.' Unemployment begins to fall, commercial activity increases, corporate and individual earnings start to go up, consumer spending picks up, prices for goods and services start to increase, and investment levels are improving.

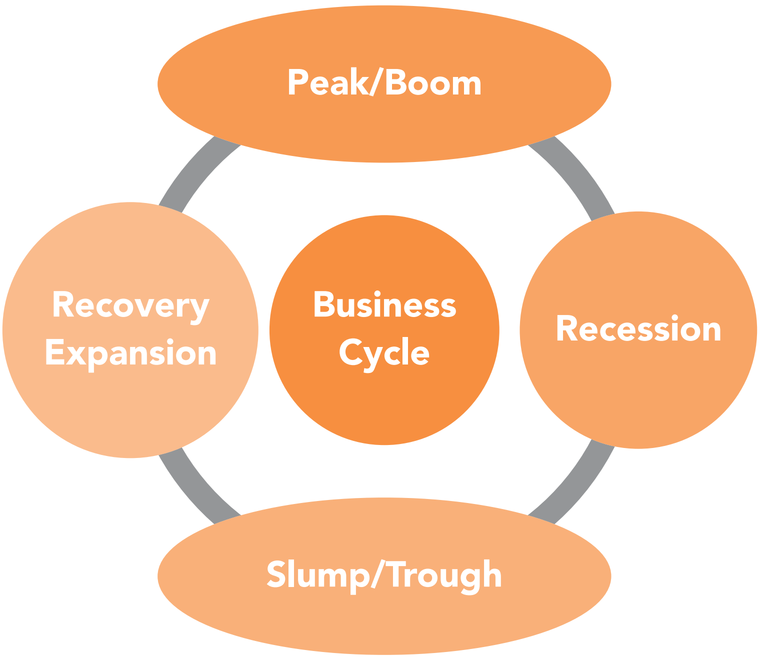

Fig. 3/1 Business Cycle

There are serious implications for organisations, in particular companies, from the business cycle. Many small businesses are particularly vulnerable to recessions because of lack of adequate financial reserves to withstand the consequences of weakened or non-existent earnings, arising from market conditions beyond their control.

All companies, of whatever size, experience fall in sales and this can be worse for some sectors than for others. Generally speaking, those companies which sell to other companies usually suffer more than those which sell to consumers. But in recent years the fear of recession has tended to provoke ever more rapid downturn in expenditure by companies, as well as individuals.

The state of a country's economy at a particular point in time is therefore of concern. The following questions need to be addressed:

- Where is it currently in the business cycle and therefore where is it heading?
- How stable is it and what are its prospects for the coming years, particularly in the medium to three to five years term?
- What is the current tax regime?
- What is the level of interest rates?
- How strong is the currency?
- What are the exchange rates for international businesses?

3.3 COMPETITIVE RIVALRY

3.3.1 VARIABLES IN COMPETITION

- **Price cutting:** The most obvious form of competition is seen when rivals decide to 'cut' the price of their products. Whenever this occurs it creates instability in the market. Price cuts or 'discounts' might arise from several causes. A company might be producing more than it can sell. It might also decide to seek domination of its market through lower costs.
  Price-cutting is not without risk. Cuts are capable of being readily matched, or exceeded, by competitors. They might 'buy' a larger market share for so long as price reductions are offered, but newly-won customers might well purchase elsewhere as soon as the discounts are withdrawn. Competitors might have greater financial strength to survive a period of price-based competition – or a 'price war' – better than the company which 'starts the fight.' However, once all or most companies in an industry are engaged in price-cutting, each of them is vulnerable to experiencing sustained lower sales revenues. In a recession it might be necessary for everyone to join in, simply because sales are so depressed by the overall economic environment.

- **Structure:** The structure of an industry will influence levels of competition. Where, as often occurs, two or three companies together dominate an industry, they can between them maintain a degree of discipline and good order over all the participants. This might be done by, for example, setting prices that others follow, establishing industry standards for good practice and supporting industry self-regulation through funding a trade association or similar body to which all players might subscribe as members.

3.3.2 THREAT OF NEW COMPETITION FROM OUTSIDE

The threat of new entrants is always present, and can come from some unexpected sources, including large companies, hitherto operating in entirely different industries, which are intent upon diversification. Instead of starting from scratch, they might prefer to purchase an existing 'player,' either in whole or in a substantial part that is sufficient to permit them to exert a direct influence on the future management of the company.

A prospective entrant might be deterred by apprehension of what retaliation is likely to be incurred from those already in the industry. Porter (1985) describes a hypothetical concept, which he calls the 'entry deterring price.' This is arrived at by balancing the forecast 'rewards of entry,' which depend upon future as well as current conditions (including market prices) against the anticipated costs of meeting 'structural entry barriers' and risking retaliation.

It follows that, if the companies already in the industry choose or are obliged to price their products are serious at levels below the entry deterring price, the threat of entry by newcomers might be removed, because the prospective potential returns have fallen. On the other hand, higher profitability might encourage entry, which in turn might serve in time to push down returns for everyone as more companies, including the newcomers, compete.

4 NON-ECONOMIC ENVIRONMENT

The various elements of non-economic environment are as follows:

4.1 SOCIAL ENVIRONMENT

Social environment is an important factor that needs to be analysed while formulating a company's business strategy. No company can afford to ignore the local customs, traditions, fashions and preferences as they have a significant bearing on the business.

Some of the social factors that affect the business are outlined below:

- Social issues such as environment pollution, corruption;
- Use of mass media;
- Social attitudes and values such as customs, religious beliefs, rituals, changing life style patterns;
- Family structure;
- Educational levels;
- Awareness of citizens' rights; and
- Consumption patterns.

4.2 POLITICAL ENVIRONMENT

The political environment of a country has a close relationship with the economic system. The political factors that affect the business environment are:

- Political system – democratic, authoritative etc.;
- Government policies and attitudes;
- Stability of the government;
- Ideologies of political parties; and
- Strength of trade unions.

Governments of countries are responsible for creating and altering much of the operational parameters within which organisations perform. Most governments legislate heavily; ruling politicians routinely present their proposals and ideas, whether or not these were intimated in a manifesto that was produced before they took office. The complexity and scale of government, even for the smallest country, necessitates that in most circumstances the details of proposed legislation are seldom available for scrutiny before its adoption becomes imminent. In addition, every government has to act in response to events which were, or might have been, unpredictable or otherwise did not by their nature lend themselves to any formal policy statement before they arose.

In Western countries there has generally been a tradition of companies accepting the circumstances with good grace, bowing to a superior authority. But in recent decades attitudes have changed, as all types of organisations have come to recognise the potential of government to impact very substantially on their operations.

Some markets are politically driven, in that politics has a major impact on demand for products and services, while other markets operate with relative independence from government. The motives of government therefore warrant close examination.

So political motivation has to be traced and understood in order that managements can monitor changes in political direction and emphasis. The managements need to identify proposed changes before they happen and decide their relevance.

Merely monitoring current proposals is insufficient; managements of companies and organisations which take politics seriously prefer to apply as much, if not more, effort to the protracted preamble as to the legislation itself. This is why global and multinational companies spend a great deal of time and effort on being thoroughly acquainted with the motives, policies and practices of 'host governments,' that is, those of the countries in which such companies operate away from their own domestic markets. Quite often they resort to lobbying aggressively through various measures.

A stable government with a clear identity and business-friendly policies ensures a positive business environment. On the contrary, if the government is not stable or it is not clear about its policies, it may have an adverse impact on the business.

Various political parties have widely differing ideologies, and mostly they control different trade unions. This causes hindrance to business if these trade unions with differing political affiliations continuously resort to strikes etc. However, this situation is fast changing for the better. With the current competitive business environment, trade unions are now demonstrating reasonable maturity and have started contributing positively to the success of various business organisations through workers' participation in management.

4.3 LEGAL ENVIRONMENT

This refers to laws and regulations which have an impact on the operations of business organisations. A sound legal system is the basic requirement for doing business in a country. The business strategists need to be aware of the laws relating to:

- Companies;
- Competitors;
- Customer protection;
- Intellectual property;
- Foreign exchange;
- Labour etc.

In addition, the following also affect the business operations:

- Provisions of the country's constitution need to be adhered to in all respects.
- Judgments given by the courts in different matters relating to trade and industry also influence the business activities.

4.4 TECHNOLOGICAL ENVIRONMENT

Technological factors sometimes pose serious problems. A company that is unable to cope with technological developments may not survive. Moreover, differing technological environments of different markets and countries necessitate product modifications. In modern competitive times, the pace of technological changes is very fast. In order to grow – even to survive – a business has to adopt the various technological changes from time to time. No business organisation can afford to ignore this aspect.

In order to cope with technological developments, the business strategists need to know:

- The type of technology used by competitors;
- Issues related to operating skills needed for technology related products and services;
- Cost of new technology;

- Various alternative technologies;
- Business applications related to technology; and
- Feasibility of upgrading existing technology.

4.5 DEMOGRAPHIC ENVIRONMENT

The demographic factors that affect business operations are listed below:

- Size of population;
- Age composition;
- Family size;
- Per capita income;
- Education levels;
- Race and religion;
- Asset ownership;
- Employment status;
- Urban and rural factors; and
- Availability of skilled and unskilled labour.

Business organisations need to analyse and address different demographic issues:

- Which trends will affect the market size for a particular industry?
- Which trends will represent opportunities or threats?

A business organisation that keeps a watch on the demographic scenario will be able to turn various opportunities to its advantage.

4.6 NATURAL ENVIRONMENT

The study and analysis of natural environment plays an important role in the success or otherwise of a business organisation.

Natural environment includes:

- Geographical factors;
- Ecological factors;
- Availability of natural resources;
- Weather and climate;
- Location;
- Topography; and
- Availability of various modes of transport.

Among other things, certain ecological factors have assumed great importance. The depletion of natural resources, environmental pollution and disturbance of ecological balance have caused great concern. These aspects lead to escalation of production cost, and the business organisations are to be fully conscious of these factors before formulating their business strategies.

4.7 THE PHYSICAL ENVIRONMENT

Business organisations greatly depend on the physical environment. There are changes being brought about through the use of resources, and some governments are reacting to growing demands for there to be some form of control or protection enforced legally. The various issues most often discussed concern the depletion of the ozone layer which surrounds and protects the Earth, 'climate change,' and the destruction of natural habitats and the heavy use of pesticides and genetic modification of crops to enhance food production.

For businesses generally, the focus is on matters relating to:

- Recycling of materials;
- Fuel efficiency; and
- Pollution.

The last of these attracts particular attention from environmental lobbyists because of the harmful effects of breathing poor – often poisonous – quality air.

The so-called 'greenhouse gases' are rapidly worsening the Earth's atmosphere. These include:

- Methane – a by-product of cattle-rearing;
- CFC (Chlorofluorocarbon) gases – used for cooling equipment; and
- Mercury – used to manufacture chlorine.

No organisation can afford to ignore such matters as waste discharge, because legislation and regulations relating to the physical environment are increasing continuously. Furthermore, organisations have a role to play, which is far greater than that of individual citizens in addressing these issues. Managers and employees can change their procedures and practices within their own operations and exert influence on their suppliers to follow their example, thereby accelerating the adoption of suitable policies. A growing number of companies go further, and look beyond compliance with legal and regulatory requirements to see whether they can further reduce pollution and increase recycling. Many of them have recognised that there are customers who reward such endeavours with extra purchases, with 'customer loyalty,' or in other ways.

Carbon monoxide and Sulphur dioxide emissions are falling in Western countries and increasing in those countries that are currently engaged in rapid industrialization. So for an organisation, that has international interests, there is another area which demands close scrutiny by their respective managements. Recycling is also of great interest; generally it appears that the costs are well covered by the resultant economies gained.

5 SOCIOLOGY AND TECHNOLOGY

5.1 SOCIOLOGY

The trouble with people is that we are all different. The social and cultural aspects of the environment are likely to be the most complex and demanding to understand, because of the rich cultural diversity to be found in most countries, and the many differing social structures and attitudes.

Everyone has their individual perceptions, attitudes and beliefs, motives, wants and needs, hopes and fears, ambitions and anxieties, likes and dislikes, prejudices and inhibitions. Many and varied are the groups and sub-groups which make up a 'society' or 'culture,' all of which have their own distinctive features and are either in ascendency or decline at any given time, whether in their relative size or influence.

To understand social structures better, governments take care to produce extensive data about their people, which can be of variable accuracy. Socio-economic and ethnic groups are counted and analysed according to such measures as educational attainment, family structures, types of occupation, home ownership, scale of possessions, social behaviours and what has come to be known as the 'family life cycle' stages.

5.1.1 SEVEN STAGES OF THE HUMAN CYCLE

This refers to stages at which people are in their progression through life, and for so long as the family remains the basic social unit, it tells the researcher much about society.

There are seven stages of 'human beings' popularly identified for this purpose:

- **Childhood and adolescence:** These are in reality two very different phases. Both belong to that embryonic early life that is decidedly pre-adult.
- **Young singles:** This is a period of young adulthood, when there are no children and probably few self-generated social or domestic responsibilities.
- **Young couples:** Emerging relationships have evolved into commitments which prompt cohabitation. The strength of relationships differs according to social and cultural influences if any resultant children are under age six.
- **Maturing couples:** People in this stage are powering through the principal years of parenthood and family commitments, with children between the ages of 6 and 7 inclusive.

- **Older couples:** In this category are included those whose children have reached 18 years of age and who continue to live in the family home.
- **Empty nesters:** This popular term describes those people whose children have reached 18 and who have left the family home, to which they might return periodically solely for visits.
- **Older singles:** These persons are advancing in years and reside alone.

It would be a mistake to suppose that the characteristics most commonly found among people in one stage or another are necessarily absent in other stages. In reality, these are fairly broadly defined, and natural segments occur which might contradict these seemingly neat divides. Managerial interest, therefore, is focused on both shared characteristics and differences.

Analysis of relevant data, from the mass available, and consideration of what is clearly recorded and known and projecting forward on that basis, should provide sound indications of likely future trends for up to half a generation ahead. The greater difficulties arise in determining the relevance of those expectations to the organisation's own future, particularly where there is evidence of social turbulence, which can give rise to substantial and sustained social changes.

These might result from:

- Increasing prosperity;
- Higher educational attainment;
- Enhanced health and welfare standards;
- Global markets;
- Substantial migration; and
- Mass tourism.

Rising living standards tend to increase 'labour mobility' – the movement of workers between different areas of a country and between countries. In some locations there might be an abundance of people in their twenties, thirties and forties, attracted by a wide variety of local labour opportunities. This is usually most pronounced in large cities.

By contrast, elsewhere there might be a predominance of people in their fifties, sixties and seventies, reflecting lower levels of local economic activity. People are living longer and they tend to settle in later life, should they have the necessary financial means to do so, in places that are viewed as 'quieter.'

These differences are major factors for the corporate planner to consider, and analysis can be complicated by the sometimes swift changes in demographic profiles that occur with increasing frequency.

One trend is certain: the world's population is growing and extrapolation of data indicates further growth. For example, in the UK the population is expected to exceed 63.5 million people in 2021, up from fewer than 60 million in 2001, but this is modest compared with the sometimes dramatic expectations of 'developing' countries, whose populations include many younger people.

Figure 5/1 below gives an indication of young population in some countries.

Country	Year of Estimation	Young population (in millions)
UK	2014	17.8
USA	2014	19.2
China	2015	269
India	2015	356

(Retrieved from: OECD (2016), Young Population (Indicator), doi: 10.1787/3d774f19-en)

The implications might be profound for an organisation which is, for example, trading in pharmaceuticals or sports goods, because consumer demands can change, and potential markets can grow rapidly.

5.2 TECHNOLOGY

5.2.1 RATE OF CHANGE

The rate of change has been of concern to most, if not all, organisations in recent years. Few indeed are those which have not had to familiarise themselves with the broad sweep of innovation that has impacted on so many lives, in the home, in the workplace and in the physical environment.

5.2.2 COMPUTING

For organisations generally, interest is focused primarily on the use of computer technologies in achieving greater automation and higher productivity. Planners need to know about the patterns and speeds of technological change for many potential implications for their organisations.

5.2.3 RELATIONSHIP BETWEEN DIFFERENT FACTORS

Changes created by technological advances do not occur in isolation. They are accompanied by resultant changes elsewhere, for instance, in the types of materials to be used in new manufacturing processes and the components required for maintaining uninterrupted production. New suppliers must be needed, and that might result in a protracted search and in subsequent new supply systems dependent upon making new relationships work to the mutual satisfaction of both parties to the deals.

5.2.4 CUSTOMER DEMAND

Customers are a key consideration in the following areas:

- **Pressure:** Some customers might exert pressure for further changes, for example, when powerful retailers require their suppliers to install matching stock, or inventory control systems.
- **Difficulty in adapting:** Some customers might have difficulty in adapting to changes brought about by technology enhancements. For example, some people cannot cope with text messaging and/or other enhanced facilities on mobile phones, or using e-wallets for making or receiving payments.
- **Resistance to changes:** Some customers might resist changes because they perceive a reduction in the quality of service provided, as where, for instance, they are required to collect cash from an ATM instead of having a person hand them what is – after all – their money, in the more congenial surroundings of the bank's interior. However, this resistance has almost disappeared in the current situation of automated and digital banking.

The managements of organisations must therefore seriously consider the advantages and disadvantages of adopting technology-driven improvements, which, in any event, usually require significant capital investment. Constant development in computer systems and information technology have raised repeated challenges to organisational resources, in terms of capital investment and manpower. Over and again managers have had to ask themselves to what extent their operations would benefit from the very 'latest' technology, and to compare that with the capital costs involved.

Many large companies have adopted a routine of discarding or upgrading of computer systems after two to four years, on the assumption that the rate of technology progress compels them to do so. However, the argument for embracing the very latest technology might be weakened by other considerations, such as costs, or the risk that the very latest technology, such as new computer software, might not yet have been fully tested in an actual working environment – and so could still have some unknown problems or faults.

Organisations which are concerned with providing a 'personal service,' such as hospitals and shops, might find that automation does not provide a satisfactory alternative, for purely practical reasons or because the people they serve insist on personal service. However, technological advances in the field of medical diagnosis and treatment have made it possible to ensure video consultation with specialists, online medical transcription, and providing treatment with the assistance of latest medical technology.

Some companies positively emphasise their personal service to their commercial advantage. Therefore, for many managers the technology gains are to be obtained in 'processes rather than delivery,' in the 'back office' rather than the 'front office,' out of sight of the customer. So we find that some interesting contradictions occur, for example, where a company sells direct to its customers 'traditional' products (such as cooked seasonal foods in the UK, India etc.) and delivers them using the very latest technologies.

5.3 RESEARCH AND DEVELOPMENT

A key area for evaluation is the appropriate level (and cost) of necessary Research and Development (R&D) to be undertaken, where to focus that effort and how much to spend on it. Managers must be sure that they can satisfy themselves as to the good sense of what is done under this heading, and for that they continue to identify and assess the technology advances in their sectors. This is the most important on-going commitment that is usually shared throughout management teams. Ultimately, all R&D has to serve customer needs; it is not 'nice to know' enquiry but 'need to know' necessity. In every sector we see a perpetual race to gain competitive advantage through technology enhancements, and to develop new products and services that are different. Research and development therefore has to be closely controlled and directed.

5.4 INTELLECTUAL PROPERTY RIGHTS

Copyright protects works such as the following:

- Written works – books, film scripts;
- Musical works;
- Art;
- Recordings;
- Films and television programmes;
- Stage programmes;
- Trademarks and logos;
- Patents of research and products;
- Industrial designs, etc.

All advances are born of intellectual endeavour, which gives rise to the need for protecting patents, copyrights and all other 'intellectual property' from those who would be glad to obtain the fruits of such labour without spending the time, costs and effort on their own research and development. The importance of this grows proportionately to the rate of innovation and plays a key role in how the managements of organisations perceive technological factors at work in their environment.

6 INTERNATIONAL ENVIRONMENT

6.1 INTRODUCTION

Any examination of the environment by the management of an organisation which has international interests must include this larger dimension. In an increasingly inter-dependent world, the exchange of goods – such as materials for manufacture, finished products, or other items possibly destined to become part of something larger – finance for infrastructure projects, cultural/trade missions designed to enhance contacts, technological know-how, and much else is drawing ever more companies and other organisations into development of international interests.

Those interests necessitate a thorough understanding of the environments to be found in those foreign or overseas 'operating territories,' in PEST (Political, Economic, Social/cultural, and Technological) and other factors, particularly the social and cultural differences as well as any similarities. This applies whether the organisation purchases or sells or manufactures these. It is also very important for better understanding of foreign competitors, because it facilitates predictions and forecasts concerning their future intentions.

6.2 GLOBAL ENVIRONMENT

Global environment is an important element of the business environment today. Hence it is important for business strategists to understand the global environment, its characteristics and functions.

6.2.1 ASSESSMENT OF GLOBAL ENVIRONMENT FACTORS

The following factors need to be analysed:

- To know the potential impact of significant international events like a sports meet;
- To identify global markets. In developing countries it implies the opening of new markets for new products. It also means increased competition from emerging globally competitive companies in Asian countries, for example, India, China, and South Korea.

Globalisation of markets refers to the process of integrating and merging of the world markets into a single market. This process involves the identification of common norm, value, taste and preference, and gradually shifts towards the use of a common product or service. Several products have global acceptance, for example, Coca-Cola, Pepsi, McDonald's, KFC, Levi's, Hewlett-Packard, Apple, Dell, Samsung, and Toyota.

6.2.2 CHARACTERISTICS OF A GLOBAL COMPANY

A global company operates in more than one country and is characterised by the following factors:

- It has a world market.
- It has multiple units located in different parts of the world but all have common ownership.
- It draws on a common pool of resources – money, credit, patents, brands, control systems.
- It can follow a common strategy – although mixed with local variances – for manufacturing and selling its products or providing services.

6.2.3 REASONS FOR GLOBALISATION

Main reasons for globalisation are the following:

- Mass production has enabled the companies to look beyond the domestic markets and create a niche for themselves in other countries.
- Profits are increased when the market share of products goes up globally.
- In some countries there is a small domestic market for their products, so they produce to their full capacity and sell abroad.
- There is an increasing demand for various products around the world. This makes it profitable for companies to meet this demand.
- Certain countries don't have production facility for some specialised products, and so this vacuum is filled by companies from other countries.

International environment is very important for certain businesses. It is particularly relevant for industries that depend directly on imports from or exports to other countries extensively.

6.3 INTERNATIONAL ORGANISATIONS

After World War II, several international measures were taken to liberalize trade and payments between nations. In 1945, a United Nations Conference was convened for the purpose of negotiating the international trade charter and for the establishment of an international trade organisation. A series of detailed negotiations were held among the principal countries of the Preparatory Committee to reduce tariffs and tariff preferences. Consequently GATT (General Agreement on Tariffs and Trade) came into being in 1948.

GATT was based on four major provisions:

- The rules of non-discrimination in trade relations between the contracting countries;
- Commitment to observe negotiated tariff concessions;
- Prohibitions against use of quantitative restrictions (quotas) on exports and imports; and
- Special provisions to promote the trade of developing countries.

Over a period of time several rounds of negotiations continued regarding further refining of the provisions of GATT. The last round – the Uruguay Round – created a legal institution the 'World Trade Organisation' (WTO) to replace the GATT.

6.3.1 WORLD TRADE ORGANISATION (WTO)

The WTO was established in Geneva on 1 January 1995 and is the only international organisation dealing with the rules of trade between the nations. The goal is to help the producers of goods and services, the exporters and the importers to conduct their business smoothly.

WTO performs the following functions:

- Administering the WTO trade agreements;
- Providing forum for negotiating among nations;
- Administering the mechanism for settling trade disputes between the member nations;
- Monitoring national trade policies;
- Providing technical assistance to developing countries; and
- Cooperating with other international organisations with regard to global economic policy making.

Even though there are several criticisms against the functioning of WTO – especially in the developing countries – WTO has more positive than negative impacts in the current global scenario.

6.4 OTHER INTERNATIONAL ORGANISATIONS

There are several other international forums for discussing trade facilitations.

6.4.1 BRICS

BRICS is the acronym for the association of five major economies – Brazil, Russia, India, China, and South Africa. These economies are growing fast and have a significant influence on regional and global affairs. The association has annual meetings, and apart from financial and economic issues, discusses some other matters related to global governance such as development, security, energy, climate change and other social issues.

6.4.2 SAARC

South Asian Association for Regional Cooperation (SAARC) was formally set up in 1983 with Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka as founding countries. Afghanistan joined in 2005.

The areas of cooperation envisaged are:

- Agriculture;
- Rural development;
- Telecommunications;
- Meteorology;
- Health;
- Population;
- Transport;
- Postal services;
- Scientific and technological cooperation;
- Sports, arts, and culture.

6.4.3 ASEAN

The Association of Southeast Asian Nations (ASEAN) was established in 1967 and consists of Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Viet Nam, Laos, Myanmar, and Cambodia.

The aims of ASEAN are:

- To accelerate the economic growth and social development in the region;
- To promote regional peace and stability;
- To promote collaboration on matters of common interest;
- To help each other in the areas of training and research facilities in educational, technical and administrative fields;
- To promote greater utilisation of agriculture and industries including problems of international commodity trade;
- To promote the improvement of transport and communication facilities;
- To promote Southeast Asian studies; and
- To cooperate with other regional and international organisations with similar aims.

6.4.4 OPEC

The Organisation of Petroleum Exporting Countries (OPEC) is a permanent inter-governmental organisation. Its member countries are: Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Qatar, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Angola, and Gabon. Currently it has its headquarters in Vienna, Austria.

The objective of OPEC is to coordinate petroleum policies among member countries in order to ensure:

- Fair and stable prices of petroleum products;
- Regular supply of petroleum to consuming countries, and
- A fair return on capital invested.

6.4.5 SAFTA

The South Asia Free Trade Agreement (SAFTA) is an agreement among the countries that are members of SAARC (South Asian Association for Regional Cooperation). Its aim is to reduce tariffs for inter-regional trade among the SAARC members.

6.4.6 UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was first held in 1964.

It has:

- Highlighted the need for a differentiated approach to the problems of developing countries; and
- Focused on linkages between trade, investment, technology and organisation development.

6.4.7 OECD

The Organisation for Economic Cooperation and Development (OECD) was set up in 1961. Its mission is to:

- Encourage policies pertaining to economic and social well-being of people around the world;
- Provide a forum for governments to share their experiences and seek solutions to common problems; and
- Measure and analyse global productivity, trade and investment.

6.4.8 SAPTA

South Asian Preferential Trade Arrangement (SAPTA) is an inter-governmental group formed by SAARC members in order to negotiate matters related to tariff reforms.

Its objectives are:

- To promote and maintain mutual trade; and
- To promote economic cooperation among developing countries.

6.5 CHALLENGES IN INTERNATIONAL BUSINESS ENVIRONMENT

International business environment has the following challenges for business organisations around the world:

- **Political risk:** It means that there could be negative impacts on account of various actions by governments in different countries. When the government of a country changes, it might bring out new sets of rules and regulations regarding doing business with a particular country. This situation creates challenges for the businesses of the countries concerned.
- **Foreign exchange:** The changing exchange values of major currencies in relation to the currencies of other countries pose a great financial challenge.
- **Demand and supply:** Demands for products and/or services may change from time to time on account of various factors including customer preferences. In the same way, supply of products may be affected because of several factors like stricter rules, fear of terrorism etc.
- **Culture:** Sometimes widely varying cultures of different countries create challenges for businesses that need to adjust their strategies as per the culture and traditions of a country where other international business organisations operate.

7 INDUSTRY RIVALRY AND COMPETITION

7.1 INDUSTRY RIVALRY

In order to understand better what is represented by intense rivalry, Porter (1980) suggests a working definition of an industry as a group of firms, as he prefers to call them, which are close substitutes for each other. This is a neat way of trying to overcome the problems of definition, because companies' products, processes and geographic reach seldom exactly match; there is ample scope for discussion, therefore, about the degree of substitution that is possible.

7.1.1 DEGREE OF RIVALRY

The degree of rivalry varies between one industry and another. There are very few companies which literally have no competition. It simply does not arise under most normal circumstances; even utilities which supply water and other necessary utilities usually experience some competition, if only, for example, because one fuel can often be substituted for another as with gas, oil and electricity. Many industries are composed of several large participants, one or two medium-size 'players' and about ten or a dozen small specialists. Some industries comprise many companies, as for example, in the textile industry.

How these structures come about depends upon the specific features of each sector. Some companies, for example, might be long-established in an industry that has been in existence, in some shape or form, for centuries and are protected by high costs of entry for newcomers; other organisations might be exploring low costs of entry in a newly emerging sector in which no company has yet grown significantly.

7.1.2 FREE MARKET RETURN

Competition serves to drive down prices, which in turn lowers the 'rate of return' obtained on the capital employed in running each organisation. There is a 'competitive floor,' below which the financial return is deemed to be not viable. Economists call this a 'free market return' obtained in conditions of 'perfect' competition. It equates roughly with what an investor could obtain by investing instead in government bonds, plus some allowance for the added risk taken in investing instead in a company, which is not considered to be so secure. Investors in many companies do not receive the expected returns on their investments, and might even lose their investments in 'failed' companies. In contrast, it is expected that governments will usually honour their obligations to 'bond holders.'

7.1.3 OPPORTUNITY COST OF REINVESTMENT

Companies experiencing severe competition are likely to see that reflected soon enough in their reduced profits, and their investors will think about the 'opportunity cost' to them of sticking with their chosen investment. This opportunity cost is the value of missed additional returns which they might obtain by withdrawing their investments, and instead reinvesting elsewhere. Sometimes shareholders 'keep faith' out of recognition of outstanding previous performance, a sentimental attachment to the company, because they used to work there or had a family connection, or due to respect for the current management's abilities. More often investors withdraw support once a certain level has been reached. Companies which are not able to achieve 'shareholder value' rarely survive. Competition, therefore, can be fatal if it cannot be effectively challenged, for whatever reasons.

7.2 PORTER'S FIVE COMPETITIVE FORCES

Porter (1985) proposed a different approach to developing corporate strategy, taking competitive advantage as his focus. He has contributed significantly to modern thinking about how an organisation relates to its environment. His writing is specifically about trading companies, although many of his ideas apply to other types of organisations as well, for example, government services that have to compete among themselves for public funding of their activities. As an engineer and economist, Porter is concerned with the impact of the external environment on the organisation.

He has suggested that the competitive environment should be analysed using a Five Forces Analysis. This involves scanning the environment for various pressures. Porter's Five Forces Tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful because it helps the organisation to understand both the strength of its current competitive position and the strength of a position it is considering moving to.

With a clear understanding of where power resides an organisation can take advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. The five important forces which decide power in a business situation are the following:

- **Bargaining power of suppliers:** Here it is assessed how easy it is for suppliers to increase prices. This is done by the number of suppliers of each key input, their strength, and the cost of changing from one to the other. If the choices of suppliers are less, the organisation needs more help from them. This makes the suppliers more powerful.

- **Bargaining power of buyers:** Buyers may bring the prices down. This can be done by the number of buyers, the importance of each buyer and the cost of changing buyers. If an organisation deals with less number of buyers, they are more powerful and buy products or services on their own terms.
- **Rivalry among current competitors:** If the organisation has many competitors who offer similar products or services, the suppliers and buyers will go to other organisations. They will remain with the same organisation if they get a better deal from it. But an organisation has great strength if it can offer what no other can.
- **Threat of substitute products:** If the organisation's customers have the ability to find a different way of doing what this organisation does, they may use substitute methods. For example, if an organisation supplies particular software that automates a process, people may find a substitute in doing it manually, or may outsource the process. This makes the organisation's position weak.
- **Threat of new entrants:** If more people are easily able to enter an organisation's market, the power of the organisation is affected. If it costs little time and money to compete with an existing organisation, new competitors will enter the market, and thus weaken its position. On the other hand, if an existing organisation has strong barriers, its position will be maintained.

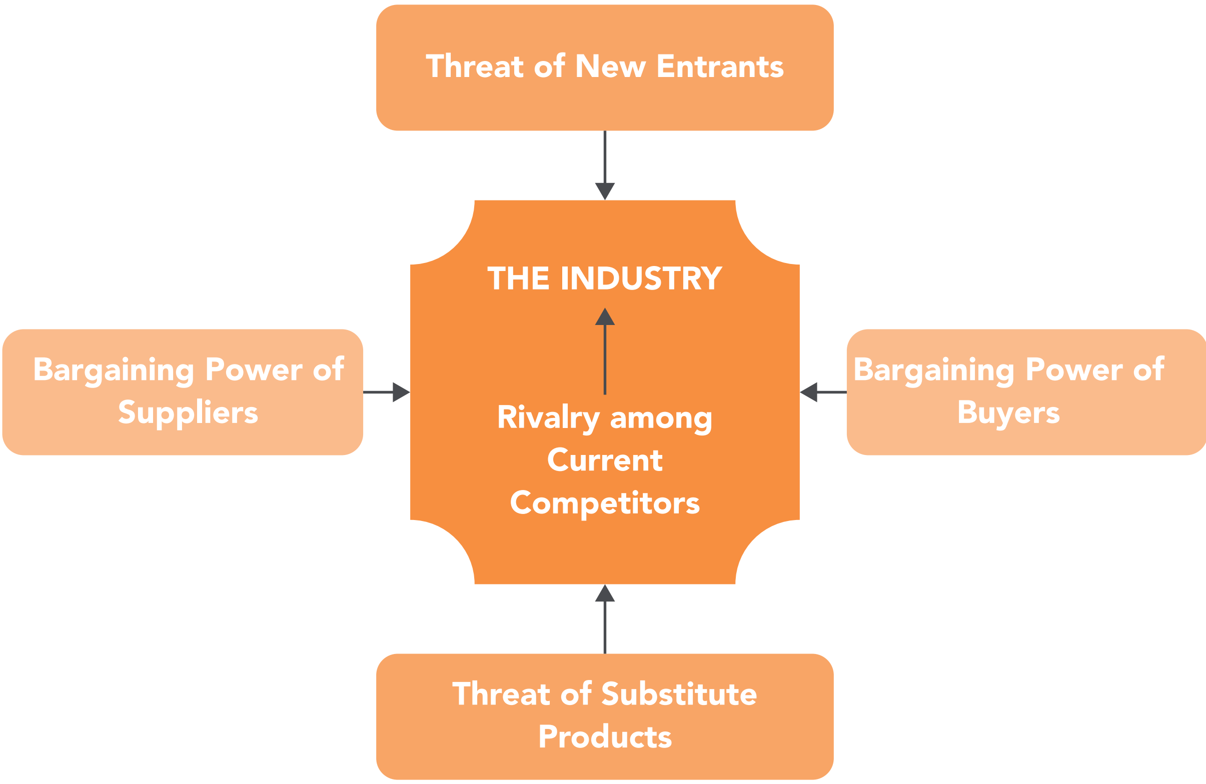

Fig. 7/1 the Five Forces Model

Porter specifically considers the issue of entering new markets, and lists seven major barriers to market entry, which can be summarised as follows:

- **Economies of scale:** Newcomers have to find ways in economies on a large scale or accept inevitable cost disadvantage.
- **Product differentiation:** Newcomers have to find ways of overcoming existing brand loyalties in order to gain acceptance of their own product/brand.
- **Capital requirements:** There is a need to invest considerable sums of money in a new venture – for R&D – much of which will not be recoverable.
- **Switching costs:** There will be the costs of machinery, equipment and other resources required to enable the organisation to 'switch' into the new market.
- **Lack of access to distribution channels:** The newcomer must work its way into existing distribution channels, such as dealer networks and wholesalers, or establish new ones.
- **Cost disadvantages regardless of size:** Newcomers will always tend to have certain cost disadvantages compared with established businesses which will have gained experience in the market, might have access to proprietary technology, and favourable locations, and might also benefit from government subsidies. New entrants might have none of those advantages.
- **Government policies:** Through licensing and legal regulation (such as foreign exchange or import controls, imposition of customs duty) governments can limit or even prevent newcomers from operating in the industry.

Porter's work on competitive advantage has been very influential. His ideas are not without their critics, however, and other commentators have pointed to his lack of reference to issues of the legality and ethics of the barriers.

7.3 OTHER FACTORS FOR INDUSTRY ANALYSIS

In addition to Porter's model, an organisation can consider the Strategic Analysis model which includes the following:

- **Industry analysis:** It begins with a definition of products and markets, skills and competitors within the industry. After this industry analysis is done, it concludes with identification of key success factors for the industry.
- **Business strategy analysis:** It begins with a description of the strategic goals and business strategy of the company. Then its implementation is analysed in terms of the company's functional and operational capabilities.
- **Strategic evaluation:** It means the SWOT analysis which includes the internal and external factors which affect the company's business strategy.
- **Critical issues and recommendations:** It identifies critical issues before the company. It ends with recommendations which result in change in strategy or functional implementation.

8 BUSINESS STRATEGIES

8.1 DECIDING THE INDUSTRY

Knowing which industry a company is in might prove even more difficult to establish than defining the parameters of a particular industry or sector. "What business are we in?" is a popular question used to concentrate consideration about this by the management of an organisation. The traditional approach is to think in terms of either:

- Processes used;
- Technology involved; or
- Customer focus.

'Turf wars' can break out among managers over the answers to this question, because the adoption of one approach over the others implies that the aspect of the business which the answer relates to has some kind of ascendency over the others.

- **Processes:** Thinking in terms of processes clearly suggests a company which is production-driven, that is to say, priority is given to 'getting the goods out' on the assumption, presumably valid, that there are plenty of customers waiting.
- **Technology involved:** The managements of some businesses prefer to think in terms of technology, particularly those which consider they are in forefront of innovation in technology-driven sectors, often opposed by relatively few competitors. Examples might include aspects of undersea exploration, advanced medical scanning equipment, or defense systems.
- **Customer focus:** The managements of other companies build their ideas around the customer. They reason that without customers there is no business. Many such businesses serve larger numbers of consumers and they study closely their customers' preferences, habits, needs and wants. Marketers argue that as competition intensifies, companies have to move from a sales orientation – where the emphasis might be on production and technology – to a marketing orientation which seeks to identify customers and their requirements and expectations first and foremost, and then take steps to meet those 'customer needs.'

The marketer, however, is unlikely to be satisfied with simply securing a definition of the company's industry by reference to its customers as a whole. Fifield (2008) identifies three traditional, or established, approaches within the marketing option, defining by reference to:

- The customer groups that are to be approached;
- The customer needs that are to be satisfied; or
- The technology that is to be used in order to satisfy customer needs.

With this greater focus it becomes possible for a company to achieve a closer definition – and therefore understanding – of what industry it is really in.

8.2 LEVELS OF COMPETITION

Where an industry is composed of a substantial number of companies in which each is of relatively equal size and strength, there is less likelihood of order being maintained and greater probability of each demonstrating independence of any industry practices.

8.2.1 PORTER'S SEVEN STIMULANTS TO COMPETITION

Porter (1980) suggests several further stimulants to competition:

- High fixed costs, relative to what the company can create in 'added value' through its own efforts, might encourage overproduction and subsequent price-cutting.
- Slow overall market growth might drive the more ambitious players to compete harder for market share.
- Little or no difference between competing products might result in customers buying largely on price and service.
- Sudden rapid increases in total industry output, prompted by a need to achieve greater economies of scale in production, might create overcapacity leading to price-cutting.
- There may be a rich diversity of companies, when there are various different needs to be satisfied, from large companies with institutional investors to small owner-managed private businesses. This situation may lead to a lot of competition.
- Competitors having an exceptionally high need to succeed, perhaps as part of a bigger plan covering several sectors, will compete strongly.
- The cost of 'quitting' is higher than participants are prepared to accept, perhaps because:
  - They are highly specialised, for example, skills and assets which are valuable only within their own industry;
  - They would have to meet substantial specific costs relating, for example, to redundancies;
  - They need to be in the industry to satisfy larger strategic requirements;
  - They are inhibited by current government policies relating, for example, to refunding grants previously given to encourage investment; or
  - They have strong emotional ties that cannot be broken, such as a long historic connection established over generations.

Each of the above reasons for a company not being prepared to 'quit' constitutes a barrier to 'market exit,' just as there are barriers to 'market entry.' Porter represents these barriers in a simple grid upon returns to be made upon investment in a company, as shown in Fig. 8/1 below.

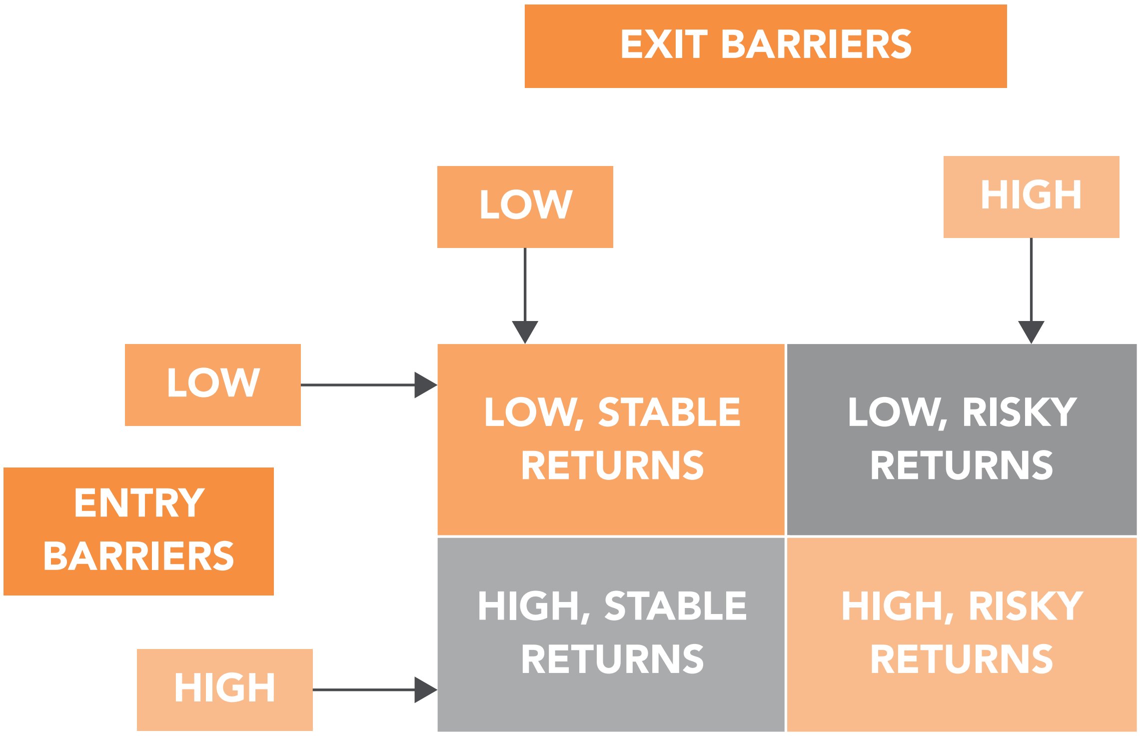

Fig. 8/1 Porter's barriers and profitability grid

The left hand side of the grid is about stable returns, that is to say, fairly consistent results that can be projected forward with relative confidence, whereas the right hand side is concerned with risky returns. The best situation for a company to occupy is that in which:

- Entry barriers are high, therefore deterring new competitors from entering; and
- Exit barriers are low, so the company can 'jump ship' should it want, or need to do so, without any great consequence.

The contrary situation, in which barriers to entry are low and barriers to exit are high, represents the worst case scenario. When times are buoyant within an industry, for whatever reason, competitors are likely to come rushing in, sensing that they are on to a good thing. This often occurs in young or newly emerging sectors.

When – due to changed circumstances – players' financial returns start to decline, everyone is likely to remain, because the cost of exit prohibits departure. Then supply starts to outstrip demand and profits are threatened. What might have looked very promising has ceased to be so, and the industry is faced with the prospect of painful realisation, from which fewer companies are likely to emerge as surviving participants.

8.3 DIRECTIONAL STRATEGY

A company has to decide which orientation towards growth it wants to follow. The following questions are to be asked:

- Should we increase our business, reduce it, or continue as it is?
- Should we continue with the existing industry or diversify into other industries?
- If we want to increase our business, should we develop internally, or develop externally by acquiring other business or starting joint venture?

A company's directional strategy is composed of the following three orientations:

8.3.1 GROWTH STRATEGIES

They include mergers, acquisitions and strategic alliances. Mergers are the combining of two companies in which only one of them remains. Acquisition is in which a company takes over another company. This may be voluntary or forced. Strategic alliance happens when two or more companies enter into a partnership in order to achieve mutually beneficial objectives. Growth strategies provide resources to overcome weaknesses. They also provide career growth for the employees of the organisation.

Growth strategies are of two types:

- **Concentration:** It means strategies aimed at growth within the existing product lines. This can be done through vertical integration. This is a strategy to add to the existing production and distribution channels of the organisation. Backward integration may be to acquire suppliers and manufacturers. Forward integration gives more economies of scale. Vertical integration can be full 100 per cent integration or it can be less than 50 per cent. Some companies are downsizing by outsourcing functions. On the other hand, there are horizontal growth strategies. This means taking the products or services to new locations. Horizontal integration may happen when a company decides to work with its competitor or acquires new products.

- **Diversification:** These strategies are used in horizontal integration. It can be by means of procuring related companies, or it can diversify into unrelated area. For example, some tobacco companies have diversified into the food industry. A company may choose from the following options:
  - **International entry options:** A company may rebuild certain facilities to be used by the acquired company. It is, however, a costly option.
  - **Production sharing:** This means combining the skilled functions of a developed country with services provided by a less developed country. The best example is that of computer programmers in India writing most of the software programs used by American and European organisations.
  - **Turnkey operations:** This means that a company develops an operation and after completion turns it over to an organisation in a foreign country.

8.3.2 STABILITY STRATEGIES

A company may decide to go for stability and not growth. These strategies are not favoured by large companies. There are several methods of stability strategies:

- **Pause/Proceed with caution strategy:** It is a temporary time-out.
- **No change strategy:** This is suitable as a short-term strategy.
- **Profit strategy:** It focuses on efficiency by reducing the use of resources.

8.3.3 RETRENCHMENT STRATEGIES

A company may adopt retrenchment strategies when its sales and profits go down and it starts making losses. At this stage, it is under heavy pressure to perform so the management may decide to remove its weaknesses by adopting retrenchment strategy. It may use one of the following retrenchment strategies:

- **Turnaround strategy:** It looks at the most important weaknesses in the company. This is a two part strategy. First, it stops the outgoing cash flow. Then it pays attention to the now smaller company.
- **Captive company strategy:** This means that a small company sacrifices its freedom and looks at its security by being a part of a large company.
- **Sell-out strategy:** It means selling out and going out of the industry. A company may decide to declare bankruptcy which gives the company protection from creditors for a period of time to allow reorganization.

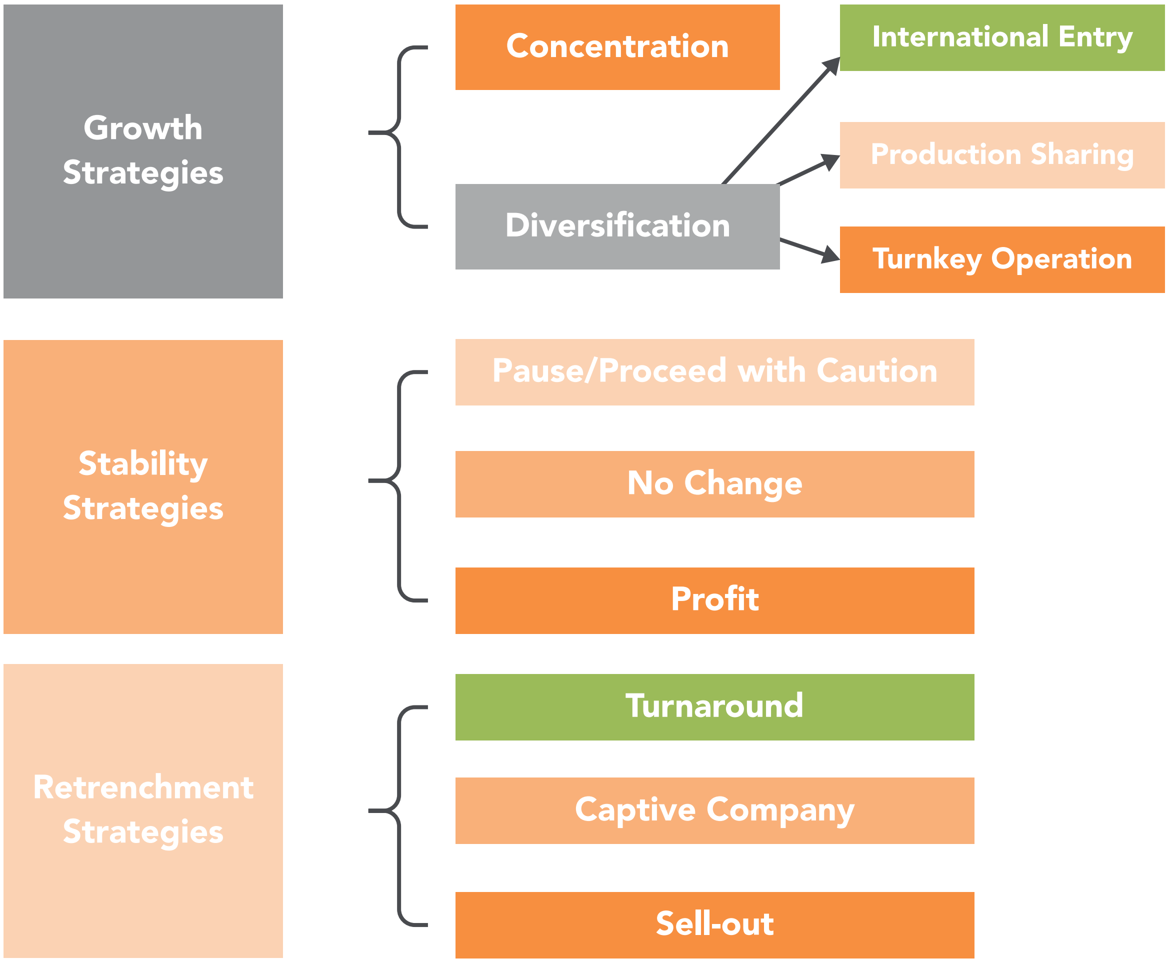

Fig. 8/2 Directional Strategy

9 BUSINESS ETHICS

9.1 INTRODUCTION

A British industrialist, Goyder (1961) first used the term 'stakeholder' expressing his concerns about how companies are run. His primary interest was in securing reform to the existing UK law under the circumstances when 'cottage industries' had evolved into large and complex companies.

The legislation did not set out the exact purpose of a company, yet gave the senior managers control, as agents of shareholders, with no corresponding rights to its employees. Goyder (1987) asserted:

> ***"The law should require a company to act as a responsible member of the community of which it is a member."***

What he was trying to do was reviving a discussion about ethics in business. In modern times the issue of ethics has become an important one in business.

9.2 APPROACHES TO BUSINESS ETHICS

In general terms we can define 'ethics' as being a system of moral or good conduct, or rules of behaviour. We can approach a consideration of ethics in the workplace from three directions.

9.2.1 INDIVIDUAL EMPLOYEE'S PERSPECTIVE

An employee primarily thinks about his/her personal circumstances and asks questions about pay and employment conditions, career growth, job security etc. These questions might include:

- Am I being paid a fair day's pay for a fair day's work?
- Is my employment contract fair and reasonable?
- Are my duties sensible?

9.2.2 ORGANISATION'S PERSPECTIVE

Managers think about the organisation's aims and objectives, its strategies and values, and efficacy of operating systems. Their questions might include:

- What should be organisation's responsibilities to each of its stakeholder groups?
- What should be done to assist redundant employees?
- Should optimum profitability be the sole aim?
- Is the organisation meeting its responsibility to train people adequately?
- What is the appropriate balance to be struck between basic earnings and bonus payments?

9.2.3 SOCIETY'S PERSPECTIVE

People in general – and stakeholders in particular – might pose these questions:

- What should be the responsibility of the multinational or global company in relation to its neighbours and host governments?
- What should be the values upon which the market operates?
- What limitations should be placed on organisations, and why?
- To what extent should control of organisations be permitted from beyond the society or country in which it operates?

Fig. 9/1 below shows approaches to business ethics.

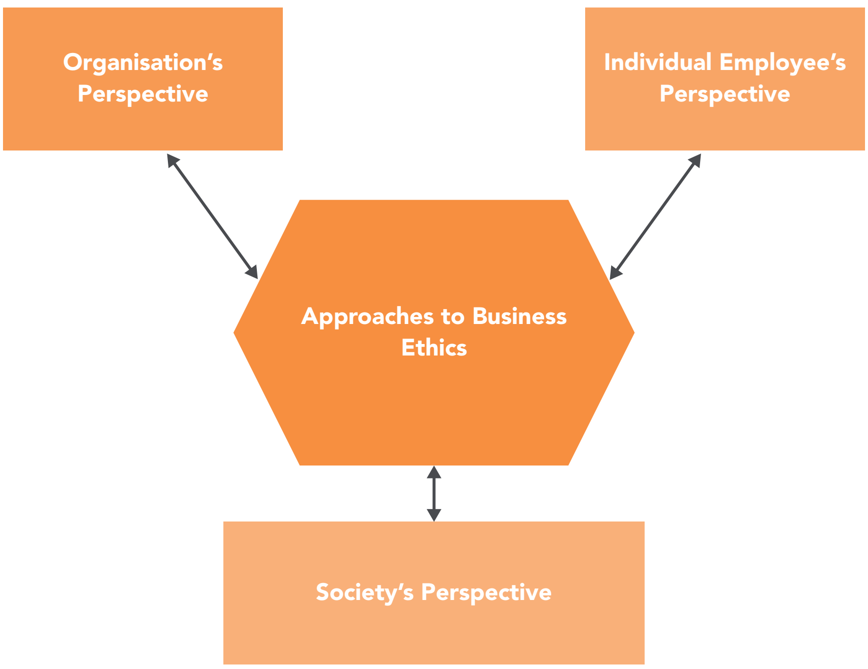

Fig. 9/1 Approaches to Business Ethics

Many people today think about how companies function and relate to the citizens or subjects which together comprise society. As people develop the ability and inclination to articulate their doubts and concerns and to question more openly the world around them, of which there are clear indications in every corner of the globe, matters of 'ethics' – behaviour, good conduct – in relation to business practices assume greater importance.

Now people are becoming more outspoken about, and questioning existing practices in, for example:

- How exactly the companies in which they invest make their profits;
- The morality of marketing communications that stimulate demand in the absence of need;
- The legality, decency, honesty and truthfulness of advertising;
- The belief that the only sin is to 'get caught' and the worship of wealth is a social example of success and achievement.

Well publicised anxieties about the deteriorating global environment – climate change, global warming – are real enough for most people to be at the very least aware, if only climate change brings such surprises as snow in localities in which it has hitherto been unknown, floods that break centuries-old records, and violent winds and earthquakes which wreak havoc.

We are alarmed at what mankind is doing to its planet. But ethics in business goes far beyond such obvious problems, and to obtain a better understanding we need to take some account of the major features of contemporary business as it is evolving around the world.

9.3 INTERNATIONAL TRENDS IN BUSINESS

International business is driven by several features.

9.3.1 ADVANCES IN COMMUNICATION

Such advances are resulting in ever greater flows of information and data around the world, which in turn is giving rise to both advantages and fresh responsibilities. On the one hand, it is enabling companies to have clear contacts with stakeholders, particularly customers and suppliers. On the other hand, it is exposing them to legal and moral liabilities, which in turn have to be taken into account in their operations.

9.3.2 GLOBALISATION

The trend towards globalisation is being fostered not only by improving communication, but also by better transport, less regulation of markets, 'free trade' agreements, and the removal of many restrictions to the movement of people. In this scenario, company managers find themselves having to balance their newfound commercial advantages against a range of fresh responsibilities, such as understanding and complying with the laws of the countries in which they have come to operate.

They have also to consider local languages, life styles, dress codes etc. They have to seek ways of reconciling the diverse work practices, styles of management, performance criteria and labour standards and costs they encounter in different countries.

9.3.3 NETWORKING

It means new companies establish interconnections around the world, and thereby develop mutual dependencies. These networks often comprise the following:

- **Wholly owned subsidiaries:** They might be purchased in order to create a place where there is no current presence.
- **Partly owned companies:** In these companies, quite often there is a minority holding. Frequently when a company purchases a substantial portion of another company's shares, one or two of its senior managers join the board of directors of the partly owned operation.
- **Joint ventures and strategic alliances:** The growth of such deals has been remarkable. It is estimated that the leading American and European companies earn over 20 per cent of their revenues through alliances.
- **Partnerships:** Some networks are being created through partnerships between different companies which find themselves to be within the same supply chain. These partnerships exploit the latest electronic data exchange technologies, and have the effect of creating substantial interdependencies, because each partner is more heavily dependent upon its suppliers.
- **Outsourcing:** Using the technologies available to them, a large number of companies are increasingly outsourcing part or all of what they require, so that other organisations bear the expense and risk of production. By this process the simple supply chain model is giving way to web-like structures dependent upon many more participants, and giving rise to much more complex and critical relationships between companies.

Partnerships are also being fostered through the outsourcing of computer software that is designed to facilitate processes and enhance them. Networks can, therefore, comprise a variety of different relationships, designed to exchange assets, whether tangible, such as product components, or intangible, such as technical knowledge or marketing skills.

9.3.4 INTANGIBLE ASSETS

Examples of intangible assets – or 'non-material' assets – include the ownership of a unique product or process or a proven ability to innovate and find creative solutions. Intangible assets also include key relationships with suppliers and other companies.

Moreover, companies are being valued increasingly on 'brand values' related to image and reputation. Consequently, managers today need to devote more attention to following successful brands, which in turn gives rise to greater effort being given to stakeholder relations, including 'corporate social responsibility' issues.

Unarguably the single most important intangible asset for any business is its employees. Certainly this is so in the many knowledge-based occupations that are proliferating. The costs of recruitment and retention of such employees are increasing, and such employees are intensely aware of their value to their employers.

Figure 9/2 below shows international trends in business.

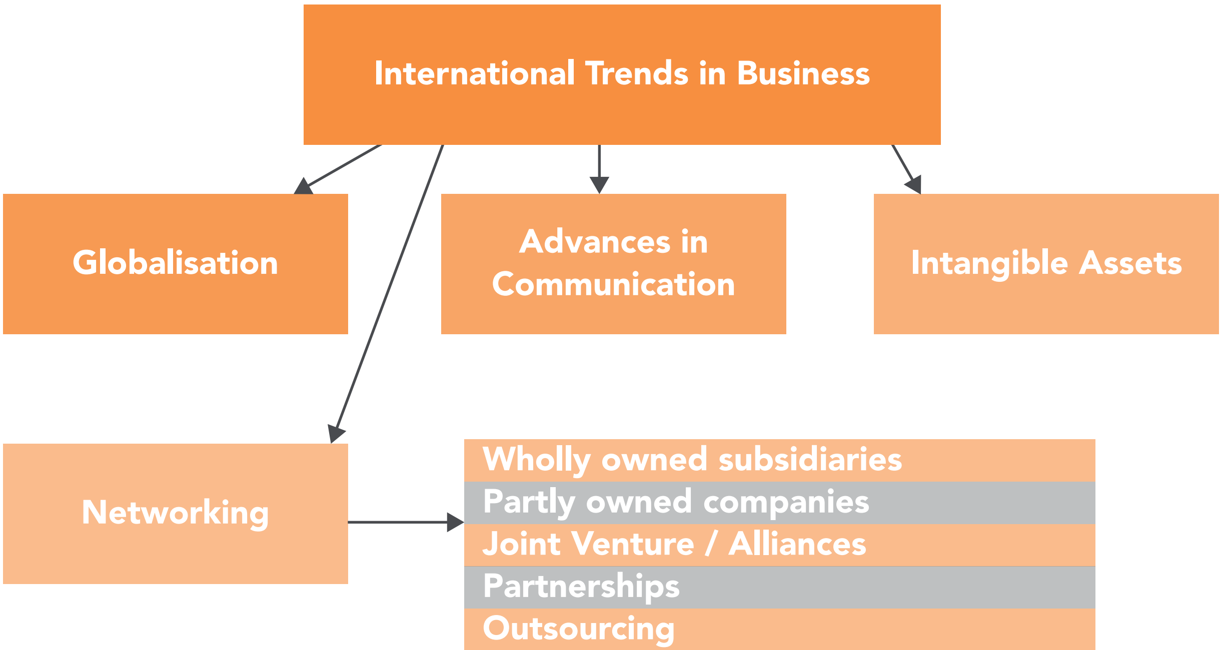

Fig. 9/2 International Trends in Business

To a greater or lesser extent, there are problems for all countries worldwide, regardless of the degree to which they rely upon knowledge-based workers. As developing countries continue to grow economically, their business managers are likely to find themselves allocating increased effort to addressing such issues.

The four major trends – communications, globalisation, networking and intangible assets – are forcing recognition among company managers of wider accountability for what they do and why they do it. Such accountability, which involves ethical considerations and potential conflicts, represents a new and significant dimension of management.

9.4 ETHICAL CHALLENGES IN THE WORKPLACE

There has to be a consistency between the values of the organisation and those of the individual people who work for it. What employees are told is the 'right and proper way' has to resonate with their own ideas of right and wrong if it is to gain ready acceptance. Most people consider what is right to be so because it appears to them to be appropriate, proper, correct, even good, and possibly noble. Similarly, they recognise what is wrong because it is repugnant to them, perverse, anti-social, foul, and in extreme circumstances might be inhuman.

The language is simple and comes straight from the heart. It facilitates decisions and needs no elaboration, but it is of no avail when, as often happens in the workplace, a choice has to be made between two or more 'right' alternatives.

These 'right-versus-right' decisions, according to research at the Institute of Global Ethics in the USA, appear to occur in one of four circumstances:

- **'Going by the book' or making an exception:** Sometimes we find ourselves – at our workplace – having to decide whether to 'keep to the rules,' which we know to be correct, or to make an exception to the rules which we believe to be wholly warranted by the particular facts of circumstances.
  On the one hand, we are looking at what has been agreed and laid down as the procedure to be adopted. It represents justice, fairness, equity or principle and promises consistency across a variety of situations. With rule books we 'know where we are.' On the other hand, we are thinking about the peculiar characteristics of the situation, which we might think call for a 'variation from the norm' in order to show compassion. We know that the first route is likely to go unquestioned, but the second might raise questions and doubts. The first requires little from us but conformity, the second might need courage and certainly requires a degree of self-confidence.
- **Telling the truth or remaining loyal:** All too often, it might seem, we find our loyalties are split and we have to decide between two seemingly impossible choices. It can happen very often in the workplace, as when for example, a consultant knows that someone with whom he/she is closely collaborating on a project is about to be dismissed once the report is written, regardless of what it says. Or a Human Resource Manager is training someone in their job even as he/she knows that this person is about to be made redundant. The project or training has to proceed as scheduled, and those involved have to wholeheartedly commit their time and effort, in order for satisfactory progress to be achieved. The consultant and the trainer both know what is to happen but both are sworn to confidentiality. It is difficult to say which the 'right' way is for each of them to proceed.

- **The People versus the Individual:** Deciding for the individual or the common good when there is a conflict of interest between them can be one of the most challenging ethical dilemmas. Every person is entitled to be treated with fairness, dignity and, when necessary, with compassion. This applies even when society at large, the neighbouring community or colleagues are hostile to that person, or reasonably might be expected to become hostile if that individual's privacy was invaded and 'personal' details about him/her became more widely known. For example, people who have served their sentences for past crimes might be wholly reformed and pursuing crime-free lives years after the offences were committed. The employer is entitled to know, but is anyone else?
  On the one hand, the employee in such a situation is entitled to his/her privacy for so long as it remains irrelevant, but what happens when it might become relevant, as when, for example, there is a crime committed within the workplace? Everyone is entitled to be protected from crime as they go about their business. The managers have duties to meet health and safety regulations; they also have a keen interest in maintaining morale and productivity, and in guarding the organisation's reputation. Should those colleagues and others be told? Such right-versus-right choices can be very hard. Opting for the greater good probably means sacrificing one person, in effect, in order to maintain all that is so valued and important to the organisation. Yet is not respect for individual rights at the core of all our ideas about successful communities and societies?
  These types of decisions confront people in a physical emergency during the course of their work. If the building is ablaze, for instance, and someone has to perish if there is any hope of evacuating the others, which decision is the right one? Obviously they both are, so we have to think in terms of which the 'correct' one is, knowing that later it might turn out that we got it wrong. Such appalling challenges to our powers of ethical judgment, however remote they might be, are far from improbable in the workplace.

- **Short-term versus long-term:** Short-term expediency can play havoc with long-term prospects. For example, would a public revelation of some mishap or irregularity – even though identified and corrected – impair image and reputation, leading to loss of support by customers or shareholders? Does the manager opt for disclosure or adhering to plan? Would disclosure serve any useful purpose? Would non-disclosure constitute an insupportable 'cover-up? Do the corporate ethics dictate disclosure, regardless of consequences? Would a revelation of non-disclosure later do even more damage? This type of dilemma is a common feature of corporate life.

9.5 COMPLIANCE

The business environment is becoming increasingly complex. Economic networks rely heavily on collaboration, with each participant unable to exercise upon others the degree of control that it would enjoy within its own organisation. The greater empowerment of people to take much greater responsibility for their own work demonstrably has many advantages, for both the employer and employee, but the day-to-day decisions and actions of non-executives can have far-reaching consequences.

9.5.1 FROM COMPLIANCE TO COLLABORATION

Because business ethics is primarily concerned with protecting and managing the organisation's image and reputation there is a need for strong emphasis on required behaviours of employees tied closely to development of a 'value-based culture.' The initial tendency of managers, in addressing these matters, was to rely on companies' rules and regulations. They sought to eliminate wrongdoing and unethical conduct by adopting policies and procedures to that end. However, heavy reliance on rules and regulations can be very expensive and of uncertain effectiveness.

In view of this, organisations have begun to favour a 'value-led' approach, specifically designed to match the corporate values with those of the individual. The reasoning, from the management perspective, is simple. If people are self-motivated to accept and conform to what is wanted, the expense and trouble of enforcing compliance is greatly reduced.

9.6 VALUE-BASED CODES

Creation and adoption of value-based codes can be done in the following manner:

- **Statement of values:** This statement can be added to the organisation's vision statement and mission statement, even though the primary argument in favour of values statement seems to be commercial.
- **Branding:** It describes the process of building our impressions of a brand through such activities as advertising. The people within the organisation also play a major part in this process, so much so that increasingly managers might conclude that in reality they are in 'people businesses' rather than in products or services.
- **Employee behaviour:** It is the people – employees – who through their behaviour and dress etc. convey the core purpose and values even when they are away from their workplace. For the core values and purposes to become apparent to the outsider, it is necessary for the organisation to demonstrate that it is doing more than simply training its staff in pleasant gestures.

- **Code of conduct:** Creating clear 'codes of conduct' ensures that everyone engaged within the organisation, whatever its nature, has a clear and firm summary of what is required of them, and a moral and ethical signposting to help them in deciding how to behave in various differing circumstances.

9.7 ETHICAL INVESTMENT

There began to develop the impression that companies were neglecting consumers' interests in order to maximize their profits, a notion which runs contrary to the belief that profitability lies in attending to the needs of the customer. In particular, automobile manufacturers were singled out for their perceived lack of sufficient commitment to safety in their products. Such concerns led to the development of 'ethical funds' specializing in research and investment. These measures covered, for example, employee relations, respect for the physical environment, equal opportunities policy, use of energy resources etc.

Ethical investment is not to be mistaken for some kind of moral campaigning, although it clearly exercises considerable influence on business ethics. It describes a particular type of investment that combines financial objectives with ethical and/or environmental goals. Initially this meant simply not investing, on moral grounds, in companies that manufactured weapons, produced alcoholic or tobacco products, were involved in gambling or pornography or traded with oppressive regimes, but soon the list started to expand.

Later research identified areas of concern to also include advertising, animals, newspapers, nuclear power and political contributions. Now investors in an ethical fund were placing emphasis on looking for evidence of positive environmental awareness among companies. Next on their list of most important positive values came employee welfare, followed by community involvement and charitable donations to NGOs (Non-Governmental Organisations) etc.

9.8 SOCIAL RESPONSIBILITY

In addition to their roles as employers and producers, larger businesses are expected by society to play a direct role in meeting community needs in the arts and education, in health and environmental affairs, in social welfare, and in various other areas.

There are two ways to encourage business organisations to develop a sense of social responsibility:

- They can be forced by law; or
- They can be persuaded to act voluntarily.

In many countries the law plays an important role in regulating the relationships between businesses and their various stakeholders. For example, there might be laws designed to protect the community from undesirable effects of commercial activities, such as industrial pollution, unsightly building developments and hazardous products.

However, the term 'social responsibility' refers in general to 'voluntary' measures undertaken by businesses as part of their wider role in modern day society. The most typical types of community activities which commercial organisations support include the following:

- Job creation schemes;
- Welfare programmes;
- Support for educational institutions;
- Support for the arts;
- Support for sports;
- Aid in times of national disaster.

9.9 CASE STUDIES

9.9.1 THE 'CADBURY REPORT'

The Cadbury Report, published in the UK in 1992, asserted that ethical considerations form part of corporate governance in general. It advocated a 'code of good practice' that stressed the need for all directors to properly address questions of business ethics. This report had a major impact on British managers, with its explicit criticism of the way in which some companies were being run.

It emphasised the role of non-executive directors, who take no part in the day-to-day running of the company, and who are there to contribute their expertise and judgment drawn from being in executive posts elsewhere, a kind of cross-fertilization of skills and experience designed to supplement the efforts of the full-time executive directors. These 'non-execs,' said Cadbury, should bring their independent judgment to bear on standards of conduct, as well as other matters such as strategy, performance, resources and key appointments.

This report, the first of several similar exercises led by leading business figures, provoked the first systematic and detailed survey of business ethics in British industry, '*The Importance of Being Ethical and the Non-Executive Director*.' A survey of the UK's 500 largest companies revealed that 56 per cent had discussed business ethics at board meetings in the preceding six months, 43 per cent had written codes of ethics, 8 per cent had conducted an audit of its ethics, and 61 per cent relied on traditional disciplinary proceedings. Most significantly, the survey revealed that in most companies the chief executive decided what, if any, should be the business ethics of his/her company.

Sparkes (1995) has quoted John Drummond, one of the authors of this survey, as saying that:

> ***"A code of practice is just a start, but it's a necessary beginning because people do need to know what the core corporate values are. However, even junior staff are no fools. They know well enough that a code of practice is just a piece of paper, and that if their manager puts pressure on them to make a sale against a customer's interest because it's needed to meet the quarterly profits target, then the whole exercise becomes a waste of time. That's why having devised a code of practice, the directors have to be seen to lead by example, and you then have to make sure that these 'integrity values' are communicated across the whole organisation. A company's code of business ethics needs to be thought through carefully, in consultation with its employees, and not just worked out by the chief executive on the back of an envelope."***

He believes that a company's reputation is its most valuable asset and that 'good ethics are good business.'

9.9.2 THE CAREMARK CASE

The directors of Caremark, a medical services company, were confronted by shareholders who alleged that the board had breached its duty of care to the company by failing to supervise employees, who had been bribing doctors to prescribe Caremark products. The directors were freed from blame because they had previously established compliance and values reporting systems, but the court warned that directors of other companies could be held liable if they did not have any such procedures, and if improprieties occurred.

The case arose because government regulators had detected and successfully prosecuted, resulting in Caremark paying US $250 million in fines, reimbursements and penalties. This important case confirmed that directors had a legal responsibility for the ethical behaviour of employees.

REFERENCES

- Buckley, P. & M. Casson, *Multinational enterprises in less-developed countries: cultural and economic interactions*, in S. Lall (ed.), "Transnational Corporations and Economic Development," United Nations Library on TNCs, Vol. 3, Routledge, London, 1993.
- Dunning, J., *Multinational Enterprises and the Global Economy,* Addison-Wesley, 1993.
- Fifield, Paul, *Marketing strategy masterclass,* Routledge, 2008.
- Jauch, Lawrence R. & William F. Glueck, *Business Policy and Strategic Management,* McGraw-Hill, New York, 1988.
- Goyder, D.G., *The just enterprise,* A. Deutsch, 1987.
- Goyder, D.G., *the Responsible Company,* Blackwell, 1961.
- Miles, M.B. & A.M. Huberman, *Qualitative data analysis: An expanded source-book* (2nd ed.), Thousand Oaks, CA: Sage, 1994.
- Peters, Tom, *Liberation Management,* Pan Books, 1992.
- Porter, Michael E., *Competitive strategy – Techniques of Analysing Industries and Competitors,* Free Press, New York, 1980.
- Porter, Michael E., *Competitive Advantage,* Free Press, New York, 1985.
- Richman, Barry M. & Melvyn Copen, *International Management and economic development,* McGraw-Hill, New York, 1972.
- Sparkes, Russell, *the Ethical Investor,* Harper Collins, 1995.

ABOUT THE AUTHOR

Dr. Manmohan Joshi, M.A., M.Ed., Cert. Ednl. Admin., Dip. HRD, Dip. Mgmt. (UK), MBA, Ph.D. (Mgmt.), has over 45 years' teaching, training and administrative experience. He has worked as Principal of large and reputed educational institutions in India, Kuwait and the Sultanate of Oman.

For his work on Innovative Practices in Value Education he was awarded by the National Council of Educational Research and Training, India.

He is also the recipient of the Best Teacher Award from the Govt. of Tamilnadu as well as the Central Board of Secondary Education, India.

He has presented papers at various national and international conferences under the auspices of UNESCO. He has also conducted various workshops for teachers, students, parents and administrators. The topics covered a wide area viz., Leadership and Team Building, Value Education, Administration Skills, Choosing a Career, Effective Decision Making in Administration, Effective Communication Skills, Interpersonal Relationships, Continuous Comprehensive Evaluation, Skills in Dealing with Managers, Secretarial Skills. He has also authored several books on different subjects.

He has also worked as Acting Chief Executive & Consultant for a reputed Training Institute in the Sultanate of Oman.

He is now Head-Content Development at Acharya Education Services, Bangalore, India, and conducts workshops and training programmes for college professors, teachers and teacher educators. He is actively involved in teaching students of MBA as well as Law.

He can be contacted through e-mail: manmohan.joshi@gmail.com

Website**:** http://manmohan-joshi.webs.com